

Jackie Sod

# FINANCIAL TIMES

Start  
the week  
with...



**Management**  
*The business of government*

Page 8



**Business Travel**  
*Let the train take the strain*

Page 12



**Today's survey**  
*German banking*

Separate section

World Business Newspaper <http://www.FT.com>

The fifth part of our 12-part series, FT Mastering Finance, appears today. Topics include foreign exchange, shareholder value and the takeover premium.



## Italy to sell third tranche of Eni shares

The Italian Treasury has launched its biggest flotation this year with the sale of a third tranche of shares in state-controlled oil and gas group Eni. The deal is worth about L10,000bn (\$5.86bn). The Treasury plans to sell 1bn Eni shares, or 12.5 per cent of the company's equity, worth about L8,700bn at current prices. The government said it might sell more shares if demand for the issue surged, but would retain control of the company. Page 16

**Gazprom and Israel in talks:** Israel and Russia's natural gas giant Gazprom are pushing forward with talks on a plan to construct a natural gas pipeline between Russia and Israel, which could supply the Jewish state with up to \$300m of gas annually. Page 5

**Promotions cancelled:** Dai-Ichi Kangyo Bank, Japan's second largest commercial lender, has cancelled the promotions of its prospective new president, Ichiro Fujita, and chairman Yoshiharu Mami. Page 16

**Merge on course:** Aerospatiale, the French state-owned aircraft, space and defence group, says its planned merger with Dassault Aviation would go ahead in spite of the election of a Socialist-led government. Page 17

**Unknown Brazilian wins French Open**

Unknown and unseeded Gustavo Kuerten, 20, became the first Brazilian ever to win a men's singles title at a Grand Slam tournament when he defeated twice-champion Sergi Bruguera of Spain 6-3, 6-4, 6-2 in a dramatic French Open final. "I didn't expect this to happen," said Kuerten, pictured, who beat defending champion Yevgeny Kafelnikov and 1995 winner Thomas Muster on the way to the final.

**ABB efficiency drives:** The Swiss-Swedish engineering group is to shed thousands of jobs in western Europe over the next five years to increase efficiency, cut costs and spread its manufacturing around the world. Page 17

**Brussels opposes German move:** The European Commission has expressed concern that a proposed German amendment to the EU's founding treaty would distort banking competition and make it harder to apply rules on state aid to public sector banks. Page 2

**New IBM mainframe:** IBM launches a new generation of G4 mainframe computers, built on low-cost chips, which it hopes will give a new lease of life to its flagship products. Page 17

**Swiss referendum results:** Swiss voters overwhelmingly rejected a proposal to ban arms exports and decided the government did not need the citizens' permission to hold talks on joining the European Union. Page 3

**Romania seeks investors:** Romania is to bring in legislation to stimulate foreign investment and allow foreign portfolio investment for the first time. Page 2

**World cup:** Scotland beat Belarus 1-0 in their World Cup qualifier. Bulgaria beat Luxembourg 4-0. Sweden defeated Estonia 3-2 and Austria beat Latvia 3-1.

**European Monetary System:** The Italian lira was the biggest gainer from the weakness of the German D-Mark and the French franc last week. The franc remained anchored to the floor of the ERM grid, but the lira gained over half a per cent against its central exchange rate. Page 24

**EMS: Grid** June 6, 1997



The chart shows the member currencies of the exchange rate mechanism measured against the weakest currency in the system. Most of the currencies are permitted to fluctuate within 15 per cent of agreed central rates against the other members of the mechanism. The exceptions are the D-Mark and the guinea which move in a 2.25 per cent band.

FT.com's web site provides online news, comment and analysis at <http://www.FT.com>



© THE FINANCIAL TIMES LIMITED 1997 No 33,512

## France signals doubts over Emu

Amsterdam summit set for clash on Maastricht

By Lionel Barber in Luxembourg

European leaders were struggling last night to keep their single currency and next week's Amsterdam summit on course after the new French government signalled second thoughts on both projects.

The first test in what could be a fateful week comes today in Luxembourg, where European Union finance ministers are reviewing the budget stability pact for monetary union, amid signals from the left-wing government in France that it will press for more emphasis on growth and employment.

In a further sign of trouble ahead, Mr Lionel Jospin, the new Socialist prime minister, has indicated his coalition government will not be rushed into signing an agreement at the Amsterdam summit in a week, despite the earlier commitment from President Jacques Chirac.

Uncertainty over French policy has provoked alarm in other capitals because it coincides with a weakening of the authority of Chancellor Helmut Kohl's government in Bonn and renewed doubts about Germany's ability to meet the Maastricht treaty's deficit criterion of 3 per cent of gross domestic product.

These doubts stem from the collapse of plans to revalue the Bundesbank's gold reserves in 1997 to meet the deficit target and infighting in the centre-right coalition over the 1998 budget.

The Dutch presidency will renew its diplomatic drive tomorrow with a visit to Paris by Mr Wim Kok, prime minister, to resolve differences over the intergovernmental conference (IGC), which is reviewing the EU's

Cook doubts on single currency ... Page 8  
Editorial Comment and Observer ... Page 15  
Lex ... Page 16

Maastricht treaty. On Friday, Mr Kohl meets Mr Jospin and President Chirac in Poitiers in what is likely to be a critical Franco-German summit.

Several foreign ministries are suggesting that a crisis may be necessary to clear the air over Emu and the IGC, whose timely conclusion is necessary for the EU to begin preparations for enlargement to central and eastern Europe.

"One way or another, we are entering a decisive period," said an EU foreign minister attending the European Socialist party congress in

Malmo, Sweden, at the weekend. Another senior EU diplomat agreed: "We may need a crisis to get to monetary union."

Behind the scenes, efforts are under way to avoid a breach between Bonn and Paris over the stability pact which governs budgetary discipline in the future euro zone.

EU leaders only agreed to the pact after marathon negotiations at a summit in Dublin six months ago which balanced German demands for near-automatic fines against fiscal delinquents with Anglo-French insistence on discretion to apply sanctions.

Mr Jospin - who says he is determined to stick to his election campaign promises - wants assurances that Emu's emphasis on price stability and budget discipline must be accompanied by provisions to coordinate social and economic policies.

Mr Jacques Delors, former president of the European Commission, acting as a broker, has put forward the idea of a protocol to the stability pact which would draw on references in the 1992 Maastricht treaty to economic policy co-ordination. "All the treaty, and nothing but the treaty," he said.

The Dutch presidency and the European Commission remain hopeful that a clash can be avoided today in Luxembourg, with ministers reaffirming the timetable to launch the single currency on January 1, 1999.

However, doubts are creeping in over the timetable for the IGC. One reason is that the French - with their insistence on stronger clauses in the jobs chapter and social policy - are moving in the opposite direction from the negotiations which are lowering ambitions in search of a compromise.



## Banks to set up global forex payment system

By George Graham in London

A group of leading international banks plans soon to set up a company to handle payments in the \$1,900bn a day foreign exchange market.

The Group of Twenty, which includes banks from Europe, the US, Canada and Japan, will meet in London next week and is expected to agree to incorporate, preparing for the creation over the next two years of a global settlement bank for foreign exchange.

The new venture could eventually serve as a holding company not only for the settlement bank, but also for other solutions to settling accounts in the foreign exchange market, such as netting systems.

That would help to resolve an argument over whether it should be based in London or New York, since it could have one leg in each city.

Financial regulators last year gave banks a two-year deadline to come up with a solution to the problem of settlement risk in the foreign exchange market, often known as "Herstatt risk", since the collapse of Germany's Bank

haus Herstatt in 1974 with \$620m of unresolved foreign exchange trades.

Payment systems around the world are not all open at the same time and one bank may pay over billions of yen to a trading partner hours, or even days, before it receives the equivalent dollars in return.

The G-20 has been working on a system which would ensure that both sides of a foreign exchange trade are completed by simultaneously crediting and debiting the two banks' accounts, in a process they call "continuous linked settlement".

But many smaller banks have been suspicious of the G-20 banks' motives, fearing that they intended to use the proposed settlement bank to increase their dominance in the foreign exchange market.

By setting up a company, the G-20 will create a mechanism which can allow smaller banks into the project.

"Once incorporated, you can separate the complexity of project management, which

Continued on Page 16  
New forex bank to cut risk, Page 4

## Record dollar bond issuance set to continue

By Edward Luce in London

A record level of dollar bond issuance is expected to continue over the next two weeks after a series of big ticket bond issues pushed total offerings to a new peak of more than \$160bn last week.

Large scale dollar-denominated bonds are planned by the Russian Federation, Venezuela, and Csep, the San Francisco-based electricity company, in the next couple of weeks.

Bankers attributed the surge of dollar bond supply to the market's growing bullishness on US inflation and concerns about the stability of Europe's main currencies.

"Investors are taking the view that the US Federal Reserve is unlikely to raise interest rates at the next meeting in July," said one bond syndicate official. "This has opened a window for borrowers to saturate the market."

Among other jumbo bonds offered last week, Brazil, Toyota Credit, the Asian Development Bank and Ford Motors issued debt of US\$15bn or more. Other borrowers included the City of St Petersburg and the Republic of Moldova, both of which were tapping the international debt markets for the first time.

Analysts say that borrowers' preference for bonds denominated in US dollars

## Ahern makes bid to form coalition

Inconclusive Irish election produces hung parliament

By John Murray Brown in Dublin

Mr Bertie Ahern, leader of the populist Fianna Fail party in the Irish Republic, was trying to form a government with other parties last night after Friday's general election produced an inconclusive result.

Mr John Bruton, prime minister in the Fine Gael-led "rainbow coalition", all but conceded defeat acknowledging Mr Ahern had "a better chance of getting the majority when the Dail [parliament] meets".

Under the republic's complex system of proportional representation the vote produced a hung parliament with Fianna Fail holding 77 seats, and its right-of-centre allies, the Progressive Democrats, four. That left the combined strength of the two parties two seats short of the 83 needed for a majority (excluding the speaker).

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Fein president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Fein's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy prime minister in the Bruton government, attacked media coverage of the campaign. He singled out the media group headed by Mr Tony O'Reilly after an eve-of-poll front page editorial in its Irish independent newspaper.

The government fell well

short with Mr Bruton's Fine Gael on 54 seats, Labour 17 and the Democratic Left four. There will be 10 independents including two Greens, and a member of Sinn Fein, the political wing of the Irish Republican Army.

The result underlined gains for both traditional large conservative parties at the expense of smaller parties. Dublin voters who had backed the Labour party in 1992 appeared to have reverted to Fianna Fail and Fine Gael. Labour and the Progressive

Democrats blamed their poor showing on the presidential style of the campaign which had concentrated on the personalities of Mr Ahern and Mr Bruton.

Fine Gael officials last night expressed confidence that two of the independents - former party members - could be persuaded to support Mr Ahern's nomination as prime minister. Mr Ahern can also expect the backing of Mr Martin O'Carroll, the lone Sinn Fein member of the Dail, who will be the party's first member to take a seat in the Dail after the party abandoned its abstentionist policy in 1986.

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Fein president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Fein's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which

stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy prime minister in the Bruton government, attacked media coverage of the campaign. He singled out the media group headed by Mr Tony O'Reilly after an eve-of-poll front page editorial in its Irish independent newspaper.

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Fein president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Fein's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which

stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy prime minister in the Bruton government, attacked media coverage of the campaign. He singled out the media group headed by Mr Tony O'Reilly after an eve-of-poll front page editorial in its Irish independent newspaper.

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Fein president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Fein's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which

stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy prime minister in the Bruton government, attacked media coverage of the campaign. He singled out the media group headed by Mr Tony O'Reilly after an eve-of-poll front page editorial in its Irish independent newspaper.

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Fein president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Fein's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which

stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy prime minister in the Bruton government, attacked media coverage of the campaign. He singled out the media group headed by Mr Tony O'Reilly after an eve-of-poll front page editorial in its Irish independent newspaper.

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Fein president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Fein's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which

stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy prime minister in the Bruton government, attacked media coverage of the campaign. He singled out the media group headed by Mr Tony O'Reilly after an eve-of-poll front page editorial in its Irish independent newspaper.

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Fein president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Fein's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which

stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy prime minister in the Bruton government, attacked media coverage of the campaign. He singled out the media group headed by Mr Tony O'Reilly after an eve-of-poll front page editorial in its Irish independent newspaper.

Mr Ahern said he would seek a meeting with Mr Gerry Adams, Sinn Fein president, before parliament meets, but he was emphatic that without an IRA ceasefire, he would not be courting Sinn Fein's support. The last ceasefire ended just over a year ago with a bomb attack in the Docklands district of London.

After a tense count which

stretched over the weekend, Mr Dick Spring, leader of the Labour party and deputy prime minister in the Bruton government, attacked media coverage of the campaign.



Just in So

Ralston to withdraw candidacy for joint chiefs of staff chairman as pressures mount to end double standards

## Adultery ends bid for top US military post

By Gerard Baker  
in Washington

The air force general who was in line to be the next chairman of the US Joint Chiefs of Staff is expected to withdraw his name from consideration for the top military post today, following his admission that he committed adultery.

Gen Joseph Ralston, now vice-chairman of the Joint Chiefs, had initially said he would continue to contest

the nomination after his re-election last week of an extramarital affair in the 1980s.

However, as congressional leaders yesterday increased pressure on him to step down, news organisations reported that he had decided to withdraw his nomination when he meets Mr William Cohen, the defence secretary, today.

Politicians yesterday warned that, if he did not withdraw his nomination, Gen Ralston would face seri-

ous difficulties in his fight for confirmation on Capitol Hill.

Rep Steve Buyer, Republican chairman of the House military personnel subcommittee, said: "I believe there's been such a cloud created in this climate as we're looking into the issues of sexual misconduct that it would be very difficult for him to be confirmed before the US Senate."

But though the Pentagon yesterday denied any deci-

sion had been made by the New York Times and Washington Post both cited officials close to him saying he had made up his mind to pull out.

The general's decision represents a serious blow to Mr Cohen, who had forcefully backed Gen Ralston's candidature.

Mr Cohen was criticised by members of Congress for double standards after other less senior officers had been forced to step down in recent

weeks following their admissions of adultery.

Two weeks ago Lt Kelly Flinn, a bomber pilot, was discharged from the air force after she admitted an adulterous relationship with an enlisted woman's husband, lying to her superiors about it, and disobeying an order to desist. Last week, the commander of the army's Aberdeen proving ground, retired at a lower rank after acknowledging he had an affair.

Though Gen Ralston's offence - an affair with a civilian woman while he was separated from his wife in the 1980s - was regarded as much less serious than those of the other officers, senior politicians expressed concern at the apparent double standards implied if the general had been allowed to accede to the top post in the armed services.

In an attempt to limit the continuing damage to the military from the mush-

## US and Japan revise pact

By Gerard Baker

The US and Japan agreed in principle at the weekend on a new expanded military role for Japan within the framework of the two countries' security treaty.

At talks between senior military officials in Hawaii, the two sides agreed that the new role could include use of Japanese airfields by US aircraft in a conflict, Japanese involvement in mine-sweeping and intelligence gathering and an expanded peacekeeping role for Japanese forces.

US officials hailed the agreement as significant step forward by Japan towards a more active role in security in the Asia-Pacific region.

"This is the first time Japan is looking to do more than in the past," Navy Lt Commander Karen Jeffries said after the meeting. The new framework for an extended Japanese role was included in an interim report prepared after six months of negotiations to review the 1978 "Guidelines for Defence Co-operation". These guidelines lay out the part Japan agrees to play in defence co-operation under the 1960 US-Japan security treaty.

The

final

report

to

be

published in November, will give details of the expanded Japanese role, such as how many air bases US aircraft will be allowed to use in any future conflict in the region.

US officials sought to play down the risk that other countries in the region might be concerned about the new Japanese role. Officials yesterday flew to Beijing and other capitals to explain the agreement and to ease any Chinese worries about a larger Japanese military presence.

The agreement appears to stop short of some of the bolder measures the US had been hoping for from Japan, such as Japanese participation in a limited way in active US operations in Asia.

## INTERNATIONAL NEWS DIGEST

### Swiss reject arms export ban

A large majority of Swiss voters yesterday rejected a ban on exports of Swiss arms and dual-use goods. The Socialist party referendum had come at a sensitive time for Switzerland, a neutral country, whose international image has been damaged by recent revelations that the bulk of its arms exports in the second world war went to Germany.

Swiss manufacturers mounted a strong campaign against the proposed ban, which directly threatened nearly 6,000 jobs and over 100,000 indirectly. These arguments appear to have swayed voters in a country where unemployment is at its highest level since the 1930s.

William Hall, Zurich

### Tudjman peace train stoned

Croatian President Franjo Tudjman yesterday called for reconciliation and forgiveness between Croats and Serbs, but his "train of peace" was stoned by a mob on return from the devastated city of Vukovar.

Mr Tudjman spoke to some 1,000 people, mostly Croats from all over the country who came with him on the train. He stood in front of Vukovar's 120-year-old blasted railway station, symbolising the destruction of the city in the 1991 Croatian war.

The gathering was secured by United Nations soldiers, who patrol and administer the mainly Serb region before it returns to Croatian rule next month. A group of 20-30 men stoned the train as it was leaving Vukovar, breaking at least seven windows, witnesses said.

Tudjman is facing re-election on June 15, and the train of peace is a central part of his campaign. He is tipped to win easily on the back of his popular reputation as the man who created independent Croatia. Reuter, Zagreb

### Indian party to choose leader

India's Congress party members are today expected to elect incumbent Mr Sitaram Kesri as party president in the first contested leadership poll in more than 40 years. Mr Kesri's election will end several months of uncertainty for the party which has governed India for most years since independence nearly 50 years ago.

Mr Kesri took on the top job after Mr P.V. Narasimha Rao, the former Congress prime minister, stepped down over corruption scandals following Congress's rout in last year's general election. In today's poll, Mr Kesri, who has played down his age - he is 79 - and highlighted his role as a "freedom fighter", will face Mr Rajesh Pilot, a former Congress minister who is appealing to the party's youth wing, and Mr Sharad Pawar, an ex-chief minister of Maharashtra state, the country's commercial heartland.

The Congress election is the first of a trio of summer polls. The Janata Dal, the main component of the ruling United Front coalition government of Mr L.K. Advani, prime minister, elects a leader in a fortnight, while next month members of parliament elect the country's 10th president.

Khaem Merchant, New Delhi

### Afghan peace moves backed

General Abdul Malik, who took over control of the Afghanistan National Islamic Movement from General Abdul Rashid Dostum two weeks ago, yesterday said he welcomed moves by Pakistan to establish peace in his country.

Pakistan last week attempted to resuscitate an agreement between the Taliban, Afghanistan's governing Islamic group, and Mr Abdul Malik's movement. Signed two weeks ago, the pact briefly left the Taliban in control of the north before northern forces turned on them, killing up to 500 Taliban in the streets of Mazar-i-Sharif.

The original deal had called for all factions to co-operate in implementing an Islamic state in the north while allowing the region to retain its autonomy.

Mr Abdul Malik defended the original deal, and said: "Afghanistan is an Islamic country. We want the Sharia to be enforced in all parts of the country. However, we don't want the kind of society which the Taliban are trying to create."

The general explained what had gone wrong with the agreement. "The Taliban were not to interfere with the northern areas of the country. But instead they tried to disarm us. They brought in 21 pilots to transfer our planes. They brought in tank crews to take away our tanks."

Charles Clover, Pakt-i-Khomri, Afghanistan

## High stakes in Cyprus initiative

Richard Holbrooke tells Bruce Clark of hopes for Athens-Ankara reconciliation

**M**r Richard Holbrooke, the newly appointed US envoy on Cyprus, says peace between the island's Greek and Turkish communities should pave the way for a broader, historic reconciliation between Athens and Ankara.

Mr Holbrooke, a banker-cum-diplomat who in 1985 negotiated an end to the war in Bosnia, made clear that he views the stakes in his new assignment as potentially even higher than they were in former Yugoslavia. The standoff on Cyprus could "explode at any time, bringing into direct conflict two NATO allies, Turkey and Greece," he said, while adding that the implications of success could also be far-reaching.

"The Greeks and Turks need to have a normalisation of their relations, just as leaders like Adenauer and de Gaulle normalised Franco-German relations in the 1950s and 60s," said Mr Holbrooke, who will retain his New York-based job as vice-chairman of Credit Suisse First Boston.

Athens, Ankara and their ethnic kin on Cyprus would need to stop treating relations with one another as a purely zero-sum calculation, he commented. "Both Greeks and Turks have got to learn that they don't gain anything from the weakness of the other side... It's in the interests of both Greece and Turkey, and the two Cypriot communities that both sides be strong and economically

munity, and Mr Rauf Denktash, the Turkish Cypriot leader.

He had "no expectations" over the timing of moves towards a settlement, and was also keeping an open mind about how he would divide his time between banking and diplomacy.

His appointment has been wel-



comed by all sides, including Britain, whose special envoy Sir David Hannay who has been the driving force behind peace efforts in recent months. "There was something missing in the equation before now," said Sir David, who has often acknowledged that his own chances of success would ultimately

depend on high-level US support. Mr Holbrooke's message that the stakes in the dispute are high has been echoed by the Greek Cypriot government - with the ominous rider that there is no particular reason for optimism. "If negotiations collapse... it will erode faith in the negotiating process and give an opportunity to hard-liners on both sides to gain advantage," said Mr Ioannis Kasoulides, the Cypriot foreign minister.

On a visit to Washington, the minister said his government would approach the July meeting "with an open mind, having the political will to be constructive and positive" although it would have preferred to wait for some narrowing of the gap between the two sides.

He reaffirmed that his government would go ahead early next year with deploying Russian-made anti-aircraft missiles if there was no settlement. Turkey has threatened a pre-emptive strike if the missiles are installed. Negotiators are hoping the July meeting will put the two sides on an irreversible path towards reunifying the island as a loose, bizonal federation - a goal to which both sides are theoretically committed.

This would put an end to the armed standoff which has persisted since 1974, when Turkey overran the northern third of the island, and forced a population exchange, after an abortive, Greek-backed coup d'état. Moves towards a settlement have acquired added urgency because of the prospect of Cyprus starting negotiations to join the European Union. Mr Denktash has said EU accession without his consent could lead to renewed war.

### El Niño set to bring havoc to Peru's economy

By Sally Bowen in Lima

Peru's gross domestic product, which is only just recovering following a disappointing performance in 1996, could be severely curtailed by a new threat: the warm Pacific current known as "El Niño" (the boy-child) which produces unpredictable climatic changes.

Although it is too early to forecast its intensity, drought and flooding produced by the Niño in 1983 brought havoc to agriculture and the fishing industry, causing a 12 per cent slump in Peruvian output. Losses were officially estimated at \$500m in northern Peru and southern Ecuador, and another \$250m in southern Peru and western Bolivia. Worldwide, Niño's 1983 damage was estimated at \$8bn by an international committee of scientists which monitors its effects.

Meteorologists are already predicting heavy rain in the north of Peru and drought in the south. Apart from the obvious effects on agriculture and potential damage to coastal towns, the infrastructure including roads and bridges has not been constructed to cope with rain. Energy output will also be affected as a large proportion of Peru's electricity is hydro-generated.

Meanwhile, the small boats which make up the bulk of the Peruvian fishing fleet must travel further and at greater cost to catch less. The anchovy and Pacific sardine which are the raw materials for Peru's important fishmeal industry (responsible for about 15 per cent of all \$60m-plus export earnings) will dwindle. The full effect of the Niño are usually felt around Christmas - hence its name. Senamhi chief Gen Jose Ames Ruiz said its appearance at this time of year was not normal and that precautions should be taken.

Niño's arrival coincides with signs that the Peruvian economy appears to be back on track for growth after the 1996 slowdown. GDP expanded 7.3 per cent in the first four months of this year with output up 13.4 per cent in April alone. Fishing and fishmeal output contributed substantially to the figures.

Niño's arrival coincides with signs that the Peruvian economy appears to be back on track for growth after the 1996 slowdown. GDP expanded 7.3 per cent in the first four months of this year with output up 13.4 per cent in April alone. Fishing and fishmeal output contributed substantially to the figures.

## SUCCESSFUL

## GAS PROJECTS

## DEMAND PARTNERS

## IN EXCELLENCE.

## WE'VE MADE

## A DIFFERENCE.

Gaz de France



Certain rather introverted managers have trouble spreading their wings...



...whilst the smart ones use our support service to set up in Montreal.

The town of Montreal, the 3rd largest conurbation in the Paris region and situated at Portes de Paris, offers all the advantages of a capital city. Only 10 minutes from the centre of Paris and 30 minutes from Roissy Charles de Gaulle international airport, Montreal's strategic and somewhat privileged position has lent it standing as a dynamic location.

Montreal, the city of engineering which boasts more than 2,500 companies, including KWAERNER-SOFRESO, is developing a service aimed at international economic co-operation to facilitate corporate set-ups in the region and export campaigns.

Setting up in Montreal means taking advantage of the capital's economic benefits without suffering the inconveniences of a great metropolis like Paris.



Montreal Town Hall / France  
Contact & Information  
Tel: 33 1 48 70 66 35  
Fax: 33 1 48 70 66 09

The Gaz de France group is a world specialist in natural gas. Established over 50 years ago, we are acknowledged experts in natural gas technology, liquefied natural gas and a leader in storage and distribution to nearly 10.5 million customers worldwide. Half of all LNG carriers today use processes developed by the Gaz de France Group.

In Gaz de France, you will have an experienced partner with the strengths and resources of

a global player. We will also bring you our expertise and a willingness to meet your requirements as well as the flexibility to adapt to your particular context and conditions. We deliver outstanding quality of products and services in all our activities, and work in partnership with companies in more than 20 countries, including Asia, South and North America. Our aim is to become first choice for partners, wherever they may be.

Photo: Michael Koenig/Corbis

## NEWS: INTERNATIONAL

## US envoy secures refugee pledge by Kabila

The US envoy, Mr Bill Richardson, left Congo - formerly Zaire - yesterday after a mission largely dedicated to persuading the country's new president, Mr Laurent Kabila, to respect human rights and show concern for refugees. Reuter reports from Kinshasa.

Mr Richardson, Washington's ambassador to the United Nations, said he secured pledges from Mr Kabila to assist a UN mission to examine evidence that his troops massacred Rwandan Huts refugees, and to prosecute anyone who broke the law.

"My Richardson pointed out that if they want a new start they have to have the kind of image that allows other governments to work with them," said a senior US administration official with the envoy.

Mr Kabila's takeover last month as president of Africa's third largest country, after a seven-month bush war, has been coloured by reports that his soldiers have been systematically killing ethnic Huts refugees in areas they control.

Speaking at a transit camp for Rwandan and Burundian Huts refugees, near the eastern city of Kisangani, Mr Richardson said that reports of widespread killings continued.

"All of us, the new government of the Democratic Republic of Congo, its neighbours and the international community, have the responsibility to stop the killings of innocent civilians," Mr Richardson said.

Mr Kabila's Alliance of Democratic Forces denies massacres took place. An earlier mission to investigate reported massacres was obstructed by Mr Kabila's soldiers - many of whom are ethnic Tutsis whose origins lie in Rwanda.

"We are delighted that President Kabila has made this declaration and we are looking forward to its implementation on the ground, which of course is essential," said Mr Pierce Gerey, UN regional humanitarian co-ordinator.

The refugees are the rump of over a million who fled Rwanda fearing reprisals in 1994 after Hutu bulldozers slaughtered hundreds of thousands of minority Tutsis.

The UN refugee agency says some 816,000 have returned home since last November, while 46,000 have been found and about 250,000 remain unaccounted for.

## BIS weighs expanded role

By George Graham, Banking Correspondent

Central bank governors gather in Basle today for the annual meeting of the Bank for International Settlements, the central bankers' central bank.

The meeting is the first since the BIS opened its membership to nine new central banks from emerging markets such as Russia, China, Brazil, Mexico and South Korea.

The expansion of what was previously a club for industrialised and mostly European central banks is just the latest in a series of metamorphoses for the BIS.

In the 1930s, the BIS served as a bank for war reparations. After the second world war, it turned into a financing vehicle for the Marshall Plan. Later, before creation of the European Monetary Institute (Emi), it became the chief forum for EU central banks.

With European monetary union scheduled to begin in 18 months, that role is now in question.

The logic of having the EU provide 12 of the BIS's 17 directors must, once the Emi has become the European Central Bank, become even

shakier than it is today. Broadening the membership is a first step towards dealing with this issue. Yet even without Emi, the expansion and rising interdependence of the world's financial markets have compelled the BIS to adapt.

"With the globalisation of finance and the globalisation of central banks' interests and concerns, the BIS needs to become a more global institution, both in members and in functions," said Mr Andrew Crockett, the organisation's general manager, in an interview last week.

Pinning down what the BIS does is not straightforward. In much of its work, and arguably the most important part, it functions as a secretariat, providing governors from the world's principal central banks with a venue and documentation for their monthly meetings.

Besides current monetary and economic policy conditions, the BIS also seeks to thrash central bankers' minds forward to more general issues that could affect them in the future, such as the development of electronic money.

Beneath the governors, the BIS acts as host to more specialised committees. The

best known, referred to simply as the Basle committee, is the committee on banking supervision.

In 1975, the committee established the original Basle Concordat, in which bank supervisors from the Group of Ten leading industrial nations agreed how they should divide responsibility for banks whose activities crossed national borders, and in 1988, it added a set of standards for capital adequacy which have become internationally accepted as the Basle ratios.

Last year it stretched its remit beyond the G10 with its "Core Principles on Effective Banking Supervision," which are expected to be adopted by bank supervisors worldwide in September.

Similarly, the committee on payment and settlement systems has co-ordinated central bank efforts to reduce or remove the financial risks that have built up almost unnoticed in the plumbing of the world banking system.

Mr Crockett insists the standards developed in these areas are not the BIS's, but those developed by national experts under the BIS's umbrella.

"We see our role as a facilitator of joint action among central banks, rather than as an actor," he said.

Nevertheless, the BIS remains a bank with a substantial balance sheet of its own and around 7.8 per cent of the world's gold and currency reserves. Besides accepting deposits from central banks, it has used its resources in the past to provide short-term funding for example during European exchange rate mechanism crises or, more controversially, during the Mexican financial crisis in 1995.

The BIS's gold bullion holdings alone are estimated to be worth around \$1 billion at market prices, although unlike its German and Swiss members, it has no plans to revalue its reserves.

That gold has opened the bank up to unaccustomed scrutiny in the past year, as questions emerged over the origins of gold it received from the Nazi Reichsbank in the second world war. While the BIS returned some gold which was clearly looted immediately after the war, it held on to some which, though not clearly looted, was not of clearly impeccable origin. It has now decided to open its archives in early 1998.

The committee is due next year to present a core set of standards to losco - the club of the world stock market regulators - for formal endorsement.

Many markets, such as the London Stock Exchange, already accept accounts presented under international accounting standards. But the great prize of losco endorsement will be the implied backing from the three countries still resisting the standards - Canada, Japan, and above all the US.

At the moment companies have to convert their

books to the new code in order to meet the losco deadline. It has announced that China has become an observer member of its board - an indication that Beijing believes the new code will provide assurance to inward investors.

The Arab Society of Certified Accountants has backed adoption of international accounting standards in 22 countries after a meeting in Dubai. Sir Bryan said: "The Dubai declaration represents a giant step toward worldwide comparability and reliability of corporate financial reporting."

## New forex bank to cut risk

By George Graham

Some of the world's biggest banks meet in London next week to lay the foundations for a global settlement bank for the \$1.200bn a day foreign exchange market.

If they are successful, the self-styled Group of Twenty will have answered the challenge made to them last year by the Bank for International Settlements (BIS), the Basle-based grouping of leading central banks, to come up with an industry answer to the problem of foreign exchange settlement risk, or see a solution imposed by the central banks.

Foreign exchange settlement risk is often known as Herstatt risk, after the Cologne private bank whose collapse in 1974 first made the problem apparent.

Herstatt was active beyond its size in the foreign exchange market, and when it failed, it was in the middle of \$620m of uncompleted trades. It was shut down after it had received D-Marks for these trades during German payments hours, but before the New York payments system was open for it to pay over the corresponding dollars.

Since then, the foreign exchange market has ballooned, and the estimated \$1,300bn a day of turnover represents \$2,600 a day of payments, since each trade

involves the exchange of the same sum in two different currencies.

But the BIS's Orange Book last year made it clear that the problem was not just one of time zones. Rather than \$2,600m of payments which might be in doubt for a few hours, the BIS report found that banks were in most cases on the hook for two or more days before they were sure that their money had arrived, multiplying the risk to the international financial system several times.

This gigantic potential exposure is now getting serious attention, even if the central banks.

The first thing most banks set about after the Orange Book was to improve their internal settlement systems. The best organisations have made sure that they are able to monitor their overall exposure and can trace and stop a payment, which may have been entered into the system but not yet

completed, on the wing.

The Orange Book has also given a boost to netting, a process by which banks agree to offset the gross amounts they owe each other, settling up with a much smaller net amount.

FINET, which was set up in 1984, provides an automated system for netting bilaterally between its member banks. It now claims to handle around 13 per cent of the world's foreign exchange trading flows, and says it is eliminating \$90bn-\$100bn a day of foreign exchange settlements from the world's payments systems, a reduction of 51 per cent in settlement risk.

Echo, which started up in 1985, goes further by offering multilateral netting: members transfer their trades to the Echo clearing house and settle up with a single payment at the end of the day. A North American rival, Multinet, also offers multilateral netting but has not yet gone into operation.

But although multilateral netting may reduce settlement risk by more than 80 per cent, it does not eliminate it altogether.

That is the aim of the G20, which has been working on

the establishment of a global foreign exchange settlement bank. It would ensure both sides of a foreign exchange trade are completed by simultaneously crediting and debiting the two banks' accounts, in a process called "continuous linked settlement".

These solutions to the problem of foreign exchange settlement risk are not an either/or proposition. At best, the G20 settlement bank will take at least another two years to set up, so there is an immediate gain in adopting a netting system. And even if the settlement bank is created, there are advantages in using it to settle payments that have already been reduced by a netting system.

In practice, most leading banks are involved in at least two of the projects. Chase Manhattan, for example, is not only a member of the G20 and Multinet, but has also been promoting an idea for eliminating settlement risk by changing the way currencies are traded: since as much as 95 per cent of foreign exchange volume is in fact banks managing their positions instead of exchanging two full payments, banks would deal in "contracts for difference", settling only the net amount by which the relative values of the two currencies have moved.

Growth in the US outstripped that in Japan and Europe. Sales in the US increased 11 per cent to \$16.4bn, while sales in Japan and Europe rose 6 per cent and 3 per cent respectively to reach \$10.9bn and \$13.5bn.

The four biggest US categories by retail value all enjoyed double digit growth. Central nervous system drugs, which include Eli Lilly's Prozac, grew 16 per cent to \$3.1bn, overtaking cardiovascular drugs, which grew 10 per cent to \$2.95bn, as the biggest selling category.

Purchases of anti-infective drugs, which grew 20 per cent to \$1.85bn, recorded the steepest rise, partly due to a

## World accounting wins more converts

By Jim Kelly in London

Last week was a good one for Sir Bryan Carsberg, the former UK fair trading regulator, entrusted with the job of trying to get the world's leading stock market regulators to agree on a common financial reporting language for listed companies.

The reforms, which would allow up to 4,000 of the world's leading companies to list in New York, Toronto, and Tokyo using international accounting standards, are beginning to generate considerable momentum.

The listing requirements in the US - including conversion of accounts to US Generally Accepted Accounting Principles (GAAP) - are seen by some as a barrier to companies seeking US capital and a restriction on the options open to US investors.

To secure worldwide recognition, the committee needs the backing of the US Securities and Exchange Commission - which has a seat on losco. There has been opposition to losco from China and accountants in 22 Arab nations as well as powerful encouragement from the New York Stock Exchange.

The committee is due next year to present a core set of standards to losco - the club of the world stock market regulators - for formal endorsement.

Many markets, such as the London Stock Exchange, already accept accounts presented under international accounting standards. But the great prize of losco endorsement will be the implied backing from the three countries still resisting the standards - Canada, Japan, and above all the US.

At the moment companies have to convert their books to the new code in order to meet the losco deadline. It has announced that China has become an observer member of its board - an indication that Beijing believes the new code will provide assurance to inward investors.

But speaking in London last week Mr James Cochrane, senior vice-president at the New York Stock Exchange, said losco project stood a "pretty good chance of success". He said the code could eventually be available to 3,000-4,000 big

global companies "unless we get really unlucky".

He acknowledged that SRC endorsement of the new code was not a foregone conclusion and might hinge on the make up of the commission in 1998. Its current chairman, Mr Arthur Levitt, is perceived as a supporter of the losco project, but may not seek a further term of office in 1998.

Mr Cochrane went on to criticise two US groups which have figured prominently in the opposition to the losco project. He said US accountants were against the reforms because they threatened their own financial code, and some favoured foreign companies being forced to use US GAAP to raise capital in New York.

Meanwhile, the IASC is preparing for a crucial meeting in Beijing at which a number of standards must be finalised in order to meet the losco deadline. It has announced that China has become an observer member of its board - an indication that Beijing believes the new code will provide assurance to inward investors.

The Arab Society of Certified Accountants has backed adoption of international accounting standards in 22 countries after a meeting in Dubai. Sir Bryan said: "The Dubai declaration represents a giant step toward worldwide comparability and reliability of corporate financial reporting."

### World pharmacy drug purchases January-March (\$m)

|                        | US     | Japan* | Germany | France | Italy | UK    | Spain | Canada | Belgium | Other |
|------------------------|--------|--------|---------|--------|-------|-------|-------|--------|---------|-------|
| Cards/angioplasty      | 2,946  | 1,768  | 918     | 867    | 490   | 341   | 266   | 245    | 101     | 98    |
| Alimentary/Metabolic   | 2,627  | 1,592  | 601     | 340    | 340   | 183   | 153   | 68     | 97      | 59    |
| Central Nervous System | 3,104  | 566    | 448     | 513    | 238   | 284   | 172   | 162    | 79      | 59    |
| Anti-Infectives        | 1,881  | 1,287  | 327     | 470    | 370   | 119   | 163   | 83     | 65      | 32    |
| Treatment              | 1,740  | 800    | 414     | 382    | 210   | 248   | 153   | 100    | 57      | 65    |
| Monetary-related       | 600    | 880    | 168     | 175    | 127   | 103   | 59    | 42     | 22      | 15    |
| Global-Industry        | 1,007  | 1,033  | 225     | 206    | 106   | 100   | 44    | 53     | 21      | 27    |
| Others                 | 2,472  | 3,059  | 667     | 252    | 385   | 231   | 198   | 156    | 63      | 64    |
| Total                  | 16,277 | 16,578 | 3,706   | 3,008  | 2,268 | 1,788 | 1,248 | 985    | 476     | 487   |
| % change*              | 11     | 6      | -3      | 6      | 5     | 6     | 6     | 10     | 2       | 1     |

\* Change excludes currency movements

\*\* Includes hospital-dispensed drugs

Source: IMS International

## US market ahead in growth of drug sales

By Michael Peel

First-quarter retail drug sales in 10 of the world's biggest markets rose 7 per cent compared with the same period last year, according to drug industry market researchers IMS International.

Growth in the US outstripped that in Japan and Europe. Sales in the US increased 11 per cent to \$16.4bn, while sales in Japan and Europe rose 6 per cent and 3 per cent respectively to reach \$10.9bn and \$13.5bn.

The four biggest US categories by retail value all enjoyed double digit growth. Central nervous system drugs, which include Eli Lilly's Prozac, grew 16 per cent to \$3.1bn, overtaking cardiovascular drugs, which grew 10 per cent to \$2.95bn, as the biggest selling category.

Purchases of anti-infective drugs, which grew 20 per cent to \$1.85bn, recorded the steepest rise, partly due to a

particularly severe outbreak of influenza during the first three months of the year.

Revenues from anti-infective sales also rose in Japan - up 10 per cent to \$1.29bn.

However, the fastest growing sector was respiratory drugs, where sales jumped 26 per cent to \$30

## NEWS: WORLD TRADE

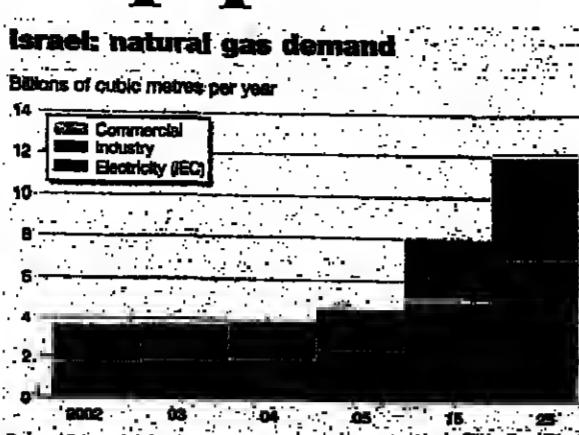
# Israel in pipeline talks with Gazprom

By Chrystia Freeland  
In Moscow and Avi Machlis  
In Jerusalem

**Israel and Gazprom, Russia's natural gas giant, are pushing forward with talks on a plan to construct a natural gas pipeline between Russia and Israel which could supply Israel with up to \$500m worth of gas a year.**

The project would provide Israel, which currently depends on coal and oil for its power generation, with estimated annual savings of \$70m.

For Israel, the link with Gazprom would also offer the geopolitical advantage of a long-term power source outside the volatile Middle East region.



For Gazprom, which controls 30 per cent of the world's known natural gas reserves, the deal would provide an attractive strategic entry into the Mediterranean market.

Mr Ariel Sharon, Israel's minister for natural infrastructure, met Mr Rem

Vlakhov, the Gazprom chief, in Moscow last week to discuss the project. He said he hoped to reach a decision on whether to go ahead with the deal over the next few months. Early next month, Gazprom officials plan to travel to Israel to discuss the proposal.

Mr Nikolai Bely, head of Gazprom's foreign economic relations department, said various possible pipeline routes were being considered. The preferred one, he said, would go from Russia to Turkey, via a Black Sea submarine pipeline and then from Turkey to Israel, through a pipeline on the bottom of the Mediterranean. Theoretically, the pipeline could be used to supply

Russian natural gas to other Middle East states such as Jordan or to the Palestinian authorities.

Mr Sharon said he hoped Israel would begin to receive natural gas by the year 2000. Alongside stepped up efforts to strike a deal with Gazprom, Israel has not ruled out buying gas from Egypt, via an Egypt-Israel pipeline which would also run beneath the Mediterranean.

"The competition will enable Israel to get the best product for the best price," said Mr Yossi Ram, president of DelMen, an Israeli energy company which has been involved in Russian-Israel pipeline proposals.

But Mr Sharon seemed clearly to favour the Russian

option, citing concerns about potential shifts in Egypt's political attitude towards Israel.

"It is a possibility," Mr Sharon said of the Egyptian option. "But we are speaking about contracts that run for decades, so I have some doubts. I backed and supported peace with Egypt, but I worry about the Egyptian position towards Israel. The Israeli government would like to be more assured that there will be no interference" in natural gas supplies.

In the past, Mr Sharon has said Israel would consider buying gas from more than one source in order to avoid dependency on a single supplier.

Between 1990 and 1994, 97 carriers sank with the loss of 537 lives

## New safety plan for bulk cargo ships

By Charles Batchelor,  
Transport Correspondent

density loads such as iron ore.

Once one bulkhead collapses the rest often follow, domino-fashion, through the length of the ship and it is likely to sink within minutes.

The new draft regulations call for new bulk carriers of 150 metres or more in length carrying lighter cargoes such as wheat, rice and timber.

Fears had been expressed by some shipping experts that disagreements over the need for action and the likely cost of tightening the regulations would prevent a compromise being reached.

The proposal that new bulk carriers should be built to withstand the flooding of one hold and that existing vessels should be strengthened will go forward to a special bulk carrier safety conference to be held at the International Maritime Organisation (IMO), the United Nations shipping agency, in November.

Shipowners who do not carry out improvements may be barred from carrying very heavy cargoes or may have to change the way they are distributed in holds

to be strong enough to withstand the flooding of any one cargo hold.

Existing vessels carrying heavier cargoes such as iron ore, pig iron, steel, bauxite and cement should have bulkheads and hull bottoms capable of withstanding the flooding of the foremost cargo hold.

Vessels which do not carry the heaviest cargoes may not need to be strengthened but if a shipowner accepts restrictions the ship should be permanently marked with a solid triangle on its hull, the IMO said.

The cost of strengthening existing ships has been estimated at \$38,500 for vessels up to 50,000 dwt tonnes and up to an average of \$137,000 for the largest ships of more than 80,000 dwt tonnes.

## Vietnam reforms run into heavy weather

Loss-making state enterprises and barriers to trade are worrying issues, writes Jeremy Grant

**T**he Vietnamese finance minister, Mr Nguyen Sinh Hung, was musing at a diplomatic reception recently when he found himself face to face with a visibly upset US investor.

After listening to a barrage of complaints, the minister squashed his cigarette into an ashtray and thought for a moment.

"Please understand, we are trying to follow the open door (policy). But there is something wrong with the lock." It was a rare show of candour in a political system where official responses are usually anodyne. But it also underscored official concern that Vietnam's economic reforms are running aground.

It was a rare show of candour but it also offered a glimpse of official worry that Vietnam's *dai moi* economic reforms may have run aground. "The potential benefits of past reforms are nearly exhausted and... further change is needed to sustain macro-economic stability and a high rate of economic growth," said Mr Ari Kokko, an economist at the Stockholm School of Economics, in a recent report.

Economists cite two wor-

rying issues: the continued dominance of the loss-making state sector and a trade system tilted towards import substitution. Reform of both areas is being blocked by vested interests in the political elite.

But the economists say Hanoi must tackle the issue for Vietnam to ensure long-term growth.

State-owned enterprises (SOEs) account for over 70 per cent of industrial output but few are making money. Cosy links to the party ensure funding via state-owned banks, creating a web of indebtedness that lies behind much of the banking sector's recent ills.

Vietnam nurses a large trade deficit, which reached \$1.14bn in the first five months of this year. That would be sustainable in the medium term if the bulk of imports were being channelled into building up export-oriented industries, the economists say.

But Mr Kokko argued there is strong evidence that most imports are used by SOEs manufacturing for the local market, protected by tariffs and non-tariff barriers.

Many SOEs are in joint ventures with foreign multi-

nationals whose interest in Vietnam's consumer market is, ironically, reinforcing the import substitution tendency.

Professor James Riedel of the international economics department at Washington's Johns Hopkins University, said this approach was unsatisfactory: "For Vietnam to follow an import substitution strategy would be to ignore 50 years of economic history in which it has been demonstrated not to work."

Nor does it mesh with Vietnam's commitment to open markets, through its application for World Trade Organisation (WTO) membership and its promise to meet tariff reduction targets under the ASEAN Free Trade Area (Afta).

Worse, Mr Kokko argued, the longer the leadership delays decisions, the higher the cost of reform later.

"The costs for liberalisation will increase with every dollar invested by SOEs and

foreign multinationals into import substitution investments that will no longer be competitive when trade barriers are removed," he said.

Observers are asking what will prompt a shift in current behaviour.

Washington wants Hanoi to agree to a tough trade

balance. That would, US officials claim, ease WTO entry. ASEAN is looking to Vietnam to cut tariffs under the ASEAN Free Trade Area scheme.

But Mr Richard Grant, head of the Asia-Pacific Programme at the Royal Institute of International Affairs in London, dismisses external pressures: "I don't see any constituencies in the

west to put pressure on the EU or US to get any real breakthroughs on Vietnam. ASEAN doesn't operate that way anyway. I think that the other ASEAN members expect Afta to go forward without Vietnam."

Indeed, Vietnam is happy that Laos, Cambodia and Burma are to join ASEAN as it will no longer be alone on a "slow track". After timetable, US officials play down US pressures as the Vietnamese economy is still too small to be of serious interest.

Internally, policymaking is confused. Reformists in the leadership - those most likely to push for change - are locked in a succession struggle with opportunist conservatives and military figures who prefer the status quo.

Some resolution is expected at a meeting of the powerful party central committee which convenes today and which is expected to endorse

top-level personnel changes.

Critics of any "shock therapy" approach to reform say the political system is not ready for sudden change and that time is not on Vietnam's side.

Referring to SOE reform, Mr Riedel said: "Right now, it's politically too sensitive to deal with. What we should be encouraging them to do is create a conducive environment for the private sector."

But, ultimately, debt may force the issue. Foreign investment approvals fell by 19 per cent in the first five months of the year, against the same period last year.

The trade deficit, at around 16 per cent of gross domestic product is a serious structural threat, according to economists. The banks are drenched in red ink.

SOE debt alone is reason enough for worry, according to Mr Kokko: "It is not much of an exaggeration to characterise the present financial situation of the SOE sector as a time bomb."

A study of accidents found that if a ship flooded the pressure of water could lead to the collapse of the cross bulkheads or partitions between the holds, especially if the ship was loaded in alternate holds with high

water.

Vessels which do not carry the heaviest cargoes may not need to be strengthened but if a shipowner accepts restrictions the ship should be permanently marked with a solid triangle on its hull, the IMO said.

The cost of strengthening existing ships has been estimated at \$38,500 for vessels up to 50,000 dwt tonnes and up to an average of \$137,000 for the largest ships of more than 80,000 dwt tonnes.

Miloslav Ptáček never really knew an entrepreneur till he was 40. Now he sees one every time he shaves.



you can  
are your  
audience  
e place.  
carry these days.  
The pace of life has quickened for Mr Ptáček.  
As the owner of a thriving urban demolition and  
renewal business in Prague, he hasn't much time  
for anything but his job.

now has making all his decisions himself. One  
of which was to acquire the Caterpillar equipment  
he'd seen and admired at exhibitions but couldn't  
persuade the bureaucracy to choose for him.

dealer who gave him credit  
the excavator of his dreams. Its speed and  
efficiency has cut costs to the point where  
profits have increased, which he tells us he's

such like the business  
Spoken like a true entrepreneur, Mr Ptáček.

CATERPILLAR

'Black hole' in cyberspace

## Tax receipts threatened by internet

By Jim Kelly,  
Accountancy Correspondent

The UK's leading tax body warned yesterday that the government faces the loss of "billions of pounds" in revenue as the result of international computer trading creating a fiscal "black hole" in cyberspace.

The Chartered Institute of Taxation urged the Inland Revenue, at a special conference called in Lincoln, to endorse a joint strategy to secure tax receipts threatened by the growth in internet transactions.

Mr John Andrews, president of the institute, said: "UK pic is in danger of being bypassed by cyberspace trading and we must jointly discuss possible action to be taken." His warning comes in the wake of research suggesting that 60 per cent of financial services companies will use the internet for deals by 1999 - compared with 13 per cent today.

Mr Andrews suggested that computer trading could rob the UK of tax on both personal and corporate transactions. Tax would be "syphoned off to other countries or not paid at all", he told the conference.

The institute proposed a joint working party to avoid what it called a "massive leakage of tax". He added: "We need to put our UK strategy in place before cyberspace trading gets out of hand."

Mr Andrews explained that companies could use programmed computers to buy and sell commodities in the cyberspace market. "Decisions and contracts

previously made in the UK are made abroad as a result, and the UK Revenue loses corporation tax."

The allocation of profit to the different tax regimes in which multinational companies operate is known as "transfer pricing". It is recognised as an area in which many companies already artificially seek to avoid tax.

Mr Andrews suggested that the UK could try and attract the location of "intelligent computer" operations by offering tax allowances in order to take advantage of the developing market.

On a personal tax level he said that when a consumer used a PC linked to the internet to purchase certain goods from a supplier located in a tax haven - such as Bermuda - Customs & Excise lost VAT.

The world's leading tax authorities are already engaged in efforts to secure their tax bases against leakage across borders. There are also fears that total global tax receipts could fall with the increasing use of tax havens.

The institute's warning will increase pressure on Mr Gordon Brown, the chancellor, to at least acknowledge the threat in his forthcoming Budget on July 2.

The last government had launched a crackdown on tax avoidance, evasion, and fraud, which is currently being evaluated by the National Audit Office. "The chancellor was examining the initiative anew - now there is also urgent need for action on the cyberspace threat," said Mr Andrews.

## Water company feels the squeeze

Drought-fighting proposals have even included piping supplies in from France

**I**t is ironic that Mr Peter Darby, who has one of the most difficult jobs in the battle to tackle shortages in the water industry, is the son of a former London fire service chief.

As managing director of Folkestone and Dover, the only English water company judged at risk from shortages across all its supply area, Mr Darby has even considered importing water from France using pipes designed to fight fires in the Channel tunnel. The idea has - at least for now - been dismissed as impractical.

The company, based around the south-east coast of England, has been on the look-out for radical solutions since January. That was when Générals des Eaux, its French parent, was forbidden by the UK Monopolies and Mergers Commission from bidding with Saur of France for the neighbouring Mid Kent company. One of their declared aims was to "optimise" scarce water resources in the heavily populated south-east.

The very notion of water shortages in Britain, traditionally seen as a rainy land where people love to moan about the weather, may itself seem a mystery.

"The basic geographical situation is that Britain is one of the wettest countries

in Europe but the rain falls in the wrong place," explains Mr Terry Marsh of the Institute of Hydrology. "The coincidence of the lowest rainfall in areas such as the south-east where population and commercial activities are most concentrated underlies Britain's water resource problems."

As part of a more energetic approach to industry regulation, the new government last month unveiled plans for companies to better manage existing supplies before building expensive and environmentally-damaging

### Plugging the leaks

Total water demand in the Severn Trent region (million litres per day)



Source: Severn Trent

new reservoirs. These included "mandatory" annual targets for companies to reduce leaks, asking companies to repair customers' leaks free of charge and promoting use of water-saving devices. Companies have been set a deadline of today to respond to the proposals by Mr John Prescott, the deputy prime minister.

But the biggest concern for many water companies is the government's pledge to oppose mandatory metering of domestic customers. Mr Darby says metering - charging according to

amounts consumed, as practised by most industrialised countries - has cut leaks in some areas served by his company by 40 per cent. It has cut water losses at night through leaks and careless use of sprinklers or taps by up to 80 per cent.

New properties are all automatically metered and most companies are forcing customers who own sprinklers or swimming pools to install a meter. Folkestone and Dover has gone one step further by making metering compulsory in areas with the worst problems.

Leyla Boulton

## Global image for Britain's national carrier

By Michael Skapinker  
and Andrew Bolger

British Airways is denying that its new livery, to be unveiled tomorrow, represents a rejection of the national carrier's UK roots.

Instead, BA says, the design portrays the airline as a representative of a new Britain - cosmopolitan, outward-looking and at ease with different cultures rather than clinging to its imperial past.

The colours on the newly designed fuselage will still be red, white and blue, although the section of the Union Flag that currently appears on the tail will go.

In its place, aircraft tails will sport a range of brightly coloured art from different countries, representing an airline and a country open to the rest of the world.

The new corporate image, designed by consultants Newell and Sorrell, is the result of a two-year worldwide market research exercise costing £2m (\$3.26m).

BA found that its foreign passengers, who represent 60 per cent of its customers, saw the airline as competent but said that it represented the old Britain. BA's service, the passengers said, was professional but reserved.

The UK customers agreed. BA's livery, introduced 14 years ago as the airline prepared for privatisation, seemed old-fashioned to many. They wanted the airline to be more outgoing, spontaneous and - while still proud to be British - open to the rest of the world.

BA says the new livery is intended to send a message to its staff too. Mr Robert Ayling, the chief executive, last year launched a programme to prepare the airline for the new millennium and find savings of £1bn.

He said that BA would be making 5,000 staff redundant and replacing them with the same number of new employees. Many of the new staff will be flight attendants hired for their language skills.

Mr Ayling also told employees that any subsidiary services which could not be delivered as cheaply by airline staff would be contracted out.

Cargo and baggage staff have agreed to wage freezes, but BA's plan to sell its catering business at Heathrow has led to the threat of a strike by 9,000 ground staff at London's Heathrow and Gatwick airports.

Ironically, cultural factors lie behind some of the dissatisfaction over the sale of the catering business. Most of the 1,200 catering workers are of Asian origin, and greatly value the subsidised flights available to airline employees' families.

Acknowledging the importance of the issue, BA has offered to maintain catering workers' entitlements for three years after any sale.

Travel industry enjoying fruits of building society conversions

## Windfall payouts boost tourism

By Scheherazade Daneshku

Mr Douglas Marsh, a postman working in London, has just spent £2,000 on a family holiday to Florida thanks to the £1,400 windfall he received from the Alliance & Leicester building society when it converted to a bank in April. Mr Frances Davidson, graphic designer, is planning to spend her £1,000 Halifax windfall on a shopping spree in Cannes.

"I'm going to Cannes next week and I'm going to splash into Thierry Mugler on the Croisette and buy a leather jacket - which I've always wanted to do."

The travel industry is enjoying a good year thanks to the economic upturn, a rise in consumer confidence and £20bn of building society windfalls.

Its fight for a larger slice of the payouts began last month when it put summer 1998 holidays on sale - the earliest brochure launch

The UK hotel industry can expect another buoyant year with prices for rooms, particularly in London, continuing to rise on the back of a supply shortage, according to a report released today, Scheherazade Daneshku writes.

BDO Hospitality Consulting, the leisure consulting arm of BDO Stoy Hayward, the accountant, found in its survey of 355 hotels that average room rates rose by 3.6 per cent to £55 last year, while occupancy rates rose

just got their money, we'll have a better idea next week."

Mr Peter Shanks, commercial director at Going Places, the UK's second largest travel agency chain, said that some people spent their windfall before receiving the money. "We've benefited already because a lot of people have booked and put down a deposit in the knowledge that they will have the money when it comes to paying in full."

Thomson, the UK's largest tour operator, expected much more to come. "People have got money to spend and they are spending it. We are optimistic that the full impact of the windfalls will come in the next six months by driving through holiday sales for the back end of 1997 and summer 1998."

"We think the windfalls are having an effect," said Mr Beaumont, "but since Halifax members who sold their shares will have only

just got their money, we'll have a better idea next week."

Mr Peter Shanks, commercial director at Going Places, the UK's second largest travel agency chain, said that some people spent their windfall before receiving the money. "We've benefited already because a lot of people have booked and put down a deposit in the knowledge that they will have the money when it comes to paying in full."

The company is spending two thirds of its total capital investment this year and next year in the UK, attracted also by the expanding market in the UK for domestic appliances as well as the country's relatively low wage costs.

Most of the investment is going into two plants run by Hoover European Appliance, the loss-making appliance company acquired by Candy two years ago for £108m.

Mr Silvano Fumagalli, chairman and chief executive of the privately-owned Candy, said Hoover had some "catching-up" to do in terms of improved automation. Candy's UK plants have productivity levels that in

some cases are 25 per cent below those in the company's Italian factories, mirroring the UK's generally low manufacturing productivity compared with other industrialised nations.

However, Mr Fumagalli said this lower productive capacity could be improved through use of new machinery which, with the UK's generally low labour costs, gave a good platform for expansion.

Investment this year and next in Candy's UK plants will be about £110m (£30m). Mr Fumagalli said it was "very likely" that Britain would leapfrog Italy as the company's biggest production centre by about the end of the century.

Last year, Italy, where Candy has six factories, produced 48 per cent of Candy's output by volume, with Britain accounting for 41 per cent. In 1996, Candy's total sales were about £1.86bn. Accounting for about 4 per

cent of Europe's \$9bn-a-year domestic appliance industry, Candy is the ninth biggest supplier of white goods across Europe.

The company's investments in Britain will mainly benefit its two Hoover factories in Merthyr Tydfil in Wales and Glasgow in Scotland, which make mainly washing machines and vacuum cleaners respectively.

Candy also has a refrigerator plant in Liverpool in north-west England.

Britain already has more Candy employees than any other country - with 2,600 out of the total headcount of 6,500. Italy is the next highest country for Candy workers with 2,200.

Average labour costs, including employment taxes, are about 20 per cent higher in Italy compared with Britain. Mr Fumagalli said the UK's low labour costs acted as a general disincentive for UK companies to invest in new machinery.

*"I ordered my usual nightcap.  
But this time the cognac arrived with a fine cigar."*



*The Butler Did It.*

NEW YORK  
*Palace*  
THE TOWERS

Service that towers above all others

455 Madison Avenue at 50th Street, New York, New York 100-PALACE 1  
When in Paris, we cordially invite you to experience the Hotel Plaza Athénée.

The Financial Times plans to publish a Survey on

## Argentina

on Tuesday, July 1

For further information, please contact:

Michael Geach in New York

Tel: +212 688 6900 Fax: +212 688 8229

or Selina Llorente in Argentina

Tel: +541 393 2480 Fax: +541 393 4461

or your usual Financial Times representative

FT Surveys

Jay V. Strode

**T**he French - many of them, anyway - are feeling pretty smug. It is the satisfaction of the six-stone weakling who stood up to the playground bully and exposed him as a figure of straw.

What next? Will the burst of slightly reckless sedition French voters displayed by turning out an unpopular but reform-minded government against the express wishes of a little-liked president provide the impetus to lift the country out of its rut?

Stranger things have happened. It is just possible the more expansionist policies prime minister Lionel Jospin's new Socialist-led government would like to pursue will instil the confidence needed to kick-start sluggish investment while sustaining consumer spending at the acceptably high level it reached last year. France's impressive trade surplus also leaves it well-placed to benefit from faster growth in other European countries.

But my hunch, sadly, is that fairly soon the old sullenness will return. For one thing, Jospin's distinctly old-look Socialists appear to have benefited more from the electorate's nihilistic desire to teach the arrogant Gaullists a lesson than from any great affection for their vague policy proposals.

For another, it seems to me that the general grumpiness is not just the result of stagnant living standards - although faster growth and significantly lower unemployment would have a cheering effect.

In addition, there is the feeling that the traditional French model of society has its back against the wall in the face of mounting pressure from omnipotent "Anglo Saxon" mores and the development of immigrant communities

**DATELINE**  
**Paris:** It is time for the French political classes to acknowledge their system's shortcomings, writes David Owen

seen by some as more resistant than previous immigrants to integration. By booting out the ruling centre-right coalition, voters vented their spleen on a government widely seen as incapable of

holding in check either of these "threats" to the French way of life.

Indeed, by adopting what many French saw as an indulgent attitude towards the growing power of the markets and alien and unsettling concepts such as hostile/foreign takeovers and the induction of the profit motive into public service companies, Alain Juppé, the defeated prime minister, and his henchmen were thought to be leading a helping hand to at least one of these alleged forces of destabilisation.

The Socialist shrewdly sought to tap into such sentiments in their election manifesto. "The right wants to lead our country down the road of hard capitalism," they wrote. "When a company announces lay-offs, the stock exchange soars; that is the logic of this capitalism."

So far, so rational. The trouble is, by electing the left, voters simultaneously highlighted a structural flaw in the classical, well-ordered model they wished to defend. They have made the need for reform, to adapt the model to the modern world, all the more obvious.

One useful, if not particularly original, way of regarding the structure of traditional French society is as a pyramid. Not the sheer-sided pyramid of the Louvre courtyard. But a stepped, Mexican-style structure consisting of layers that become smaller and smaller the closer you get to the top.

Once the country's impressively meritocratic education system has finished with them, most French men and women have a pretty clear idea of the layer they can expect to attain. And once there, they are, by and large, content.

The foundations of this structure have been under attack for some time. Pressure on big French companies to improve their competitiveness has helped to drive unemployment up to post-war record levels and deprive low-skilled workers in particular of the sort of blue-collar positions they saw as their entitlement.

That has prompted those worst affected to look for scapegoats. They have duly found them, in Juppé's discredited government; in the elite graduates of the Ecole Nationale d'Administration - the so-called "Enarques" - whose standing can rarely have been at such a low ebb; and in the coun-

try's immigrant communities, hostility to which was exploited by the far-right National Front to lift its share of the popular vote to 15 per cent.

It is worth underlining that in the first round of the election, Jean-Marie Le Pen's party scored 162,000 more votes than the UDF, the junior partner in the then ruling centre-right coalition.

Now Jospin's victory has imposed on the structure a second span. For the third time in 11 years, a president of one political stripe will have to "cohabit" with a prime minister of another.

Surely the time has come for the French political classes to acknowledge the shortcomings of the Fifth Republic's system, at least to the extent of somehow synchronising presidential and parliamentary elections.

Or would that be interpreted by the country's cussed voters as another unacceptable importation of the American way into their sacred national affairs?

## THIS WEEK

# Flaws disfigure France's pyramid

**The Monday Profile:** Don Logan, Time Inc

## Programmer turned publisher

**A**s befits a man who runs the world's largest magazine company, Time Inc, Don Logan believes in magazines, their power as a medium, and their endurance in the face of electronic competition.

But the large bear of a man with a soft Alabama accent who is at the moment president and chief executive of Time Inc, and is about to become chairman as well, goes further - much further. Print, he says, with only a touch of hyperbole to emphasise his point, will not disappear "in a million years."

The statement, accompanied with a smile, is given more weight by the fact that Don Logan is no effects publishing technophobe taking flight from the threat posed by the growth of the internet.

A mathematician by training, the Time Inc chief executive is completely at home with computers because his first job in publishing was as a data processing manager for Southern Progress, the Birmingham, Alabama publishers now owned by Time.

Not only can he write computer code, but he was also vice president and general manager of the Southern Progress computer division when he was asked to be "babysitter" for the company's loss-making books division while they found someone new to run it.

"I found out that I liked it and was happy to get out of the computer business. We turned it to break even the first year and nicely into the black the second year," says Logan, who moved on to magazines and then to Time Inc's headquarters in New York in 1992.

Time Inc's magazines from Time itself to Sports Illustrated, and from People to Fortune, are all available in electronic form on the internet - including daily breaking stories from Time journalists. Logan regards it as R&D rather than a clear business opportunity - a way of groping towards an internet publishing business model.

"We don't know of anybody



who has a publishing model that actually works. I don't know of anybody making money on the internet," says Logan, whose division of Time Warner had revenues of \$4.1bn (£2.5bn) last year and a profit of 13 per cent.

"I believe the electronic revolution is simply one new form of communications that will find its place in the food chain of communications and will not displace or replace anything that already exists, just as television did not replace radio, just as cable did not replace network television, just as the VCR did not replace the movie theatres," says Logan.

The problem is that no-one has managed to work out so far exactly where the PC and elec-

tronic distribution of information fits on that chain.

Time Inc is however going to do more R&D this year. It plans to pick one of its magazines which is not readily available outside the US - Sports Illustrated, Entertainment Weekly or People magazine - and to make the full text available electronically on subscription. Time will also look at something in the transactional area - perhaps offers from its Book of the Month club.

Logan is not sure yet whether the trick will be to aggregate electronic content under brand names or whether to "mine deep within vertical areas of interest" such as batting information on

what every player in the major league did yesterday.

Logan insists for now he has no time to worry about running a "mature" business.

"Every time we even start thinking about being mature, we have dozens of people coming up with new ideas about new ways of generating growth and we see no reason to slow them down," says Logan.

One important pillar of the company's strategy has involved extending existing brands and spinning off new related titles.

Time has launched Time for Kids, a special classroom edition of the weekly news magazine which now has more than 1.2m customers. People gave birth to Who, a spin-off for Australian readers and also to In Style, a lifestyle magazine for women which is now selling 1m copies.

Just as important has been what Logan calls "selective branding" - special editorial pages inserted for those readers who would appreciate them. Forty times a year Sports Illustrated publishes a special Golf Plus edition which goes directly to the 500,000 Sports Illustrated readers who have identified themselves as golf fanatics.

The more information there is out there in whatever form, there will be, Logan believes, a "flight to quality" with consumers choosing the brands that provide "analysis and context, believability and trust."

Again, nothing much has changed. Logan, computer programmer turned publisher, tells the story of the founder of Time, Henry Luce, when confronted in 1923 with the argument that there was too much information already and so no room for a weekly news magazine.

In the prospectus for Time Luce wrote that its purpose was "to cut through the clutter of information we're exposed to, and to try to make sense of the world."

That is what Logan thinks is the role magazines will continue to play in future.

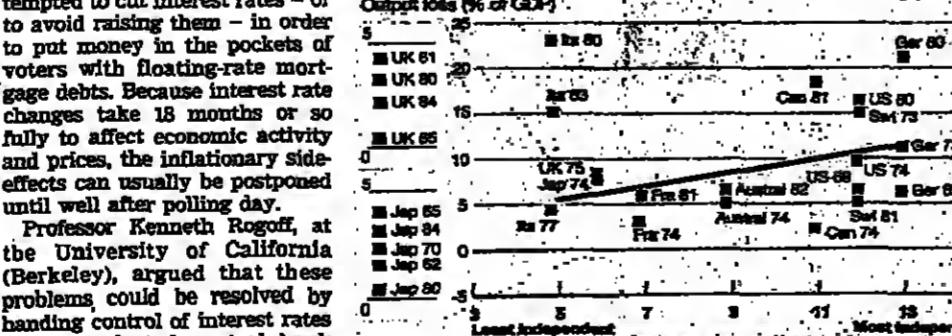
Raymond Snoddy

**Robert Chote · Economics Notebook**

## A fashion for independence

The benefits of central bank freedom are by no means clear cut

### Independence implies deeper recessions



Source: Dickey & Fischer's "Global Macroeconomics and International Policy Reforms".

Federal Reserve Bank of Boston (1994).

Output is measured as the percentage change in real gross domestic product in England and Wales.

Prices for stability demanded for the purposes of monetary policy in England and Wales

Previous Price for Floating 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/1987

Post Price for Stable 7/25/1987

Post Price for Floating 7/25/

## MANAGEMENT

# A bloated Uncle Sam gets the slimming treatment

It used to cost \$400 for a US department to buy a \$6 hammer. Linda Bilmes on how federal government is being reinvented along business lines

**R**einventing government along business lines is becoming a global fashion. From New Zealand to Sweden, governments are borrowing techniques from the private sector in an attempt to cope with rising costs, demanding consumers and technological change.

Not surprisingly, the biggest laboratory for this experiment is the US. In the past four years Al Gore, vice president, has made the issue a top policy initiative with his National Performance Review.

He started in 1993 by convening a group of management gurus and chief executives who had successfully re-engineered large corporations. They told him the trick was to involve the federal workers. In style and substance, the review has imitated the business world, forcing big government departments to become more customer-focused, use competitive benchmarking, re-engineer their core services, and harness information technology to increase productivity.

The review is one of few policy initiatives to have its origins abroad. When the US started the effort in 1993 it studied what other countries had done, including Britain's "Next Steps" programme and New Zealand's "Performance Agreements".

Gore told the FT: "We've learned a lot from leaders such as Sweden and the UK, but they are also learning from us. The US effort is on a much bigger scale than those in Europe, and is probably less ideologically based."

America has firmly taken the lead. Senior officials from more than 80 countries, including vice-presidents, cabinet ministers, governors and legislators, have travelled to Washington to see how it should be done.

Working with David Osborne, management guru and author of two best-sellers, *Reinventing Government* and *Banishing Bureaucracy*, the review issued its first 400 recommendations for improving government in September 1993. A second round of 350 proposals was launched in 1995.

The programme is aimed at making government agencies undergo a profound philosophical shift – to think about the people they serve as customers, and to work in partnership with those they regulate.

According to John Kamensky, deputy director of the review, one of the secrets of the programme's success is that three-quarters of the proposals did not need congressional approval. By contrast, previous attempts to reform government depended almost entirely on legislative change. The review has been able to make Congress focus on a few "silver bullets" to improve gov-



ernment across departments.

One of these is procurement reform. Until recently, federal workers had to file a multitude of requisition forms – and await approval – for even the most trivial purchase. It cost \$60 to process a request for a \$4 stapler. The new system gives workers a

federal "credit card" for small purchases. The review estimates that this change has saved the taxpayer more than \$12bn.

Another silver bullet is a law permitting golden handshakes of up to \$25,000 for employees who leave the government. The aim was to encourage about 272,000

employees to leave the federal payroll by 1999. Already, 280,000 have gone from a workforce that peaked at 2.3m in 1990.

The self-styled Energiser in Chief is Bob Stone, a former Apollo engineer and Pentagon manager who pioneered reform at military bases. He and a tiny

team of reinvention experts have visited the regional office serving war veterans in New York.

Veterans were unhappy with the whole way we were structured," says Joe Thompson, a Vietnam veteran who runs the office. "We were set up like an assembly line, with 25 steps to process a disability claim. When a veteran would phone in for information, he would speak to someone outside this process, who could never answer the question. It was enormously frustrating.

"In April 1993 the National Performance Review designated us as a 'reinvention lab'. That gave us the freedom to be experimental. We went to IBM and AT&T and saw that we needed to change

our organisational structure, workflow, jobs, performance measures and compensation systems. In four years we have done all this.

"We created self-managing teams, eliminated half the supervisory positions, and shortened the process from 25 to eight steps. One person on the team is the designated contact point for each veteran. We adopted the 'balanced scorecard' approach to measure performance, and we added in measures of customer satisfaction and employee development. Now we're trying to replace civil service pay scales with skill-based pay."

The result has been significant fall in veterans' enquiries – down from 2,000 to under 1,000 calls per day. In a final twist, private companies, including Col-

gate-Palmolive, have visited Thompson – seeking advice on how to re-engineer their own operations.

Another success relates to the way regulatory agencies work with the private sector. Traditionally, these agencies had an adversarial relationship with the industries they regulated. Inspectors assumed guilt unless innocence was proven. This approach was reinforced by internal performance measures.

The State of Maine used to have the country's worst record of safety at work. Paradoxically, the local Occupational Health and Safety Administration was ranked as one of the best because it made the most inspections, found the most violations, and levied the highest fines.

Armed with the reinvention

staff command an array of reinvention-minded government employees. "Most of our staff are on loan from various agencies – over 800 have rotated through in the past four years," says Stone.

The main task has been to identify and reward innovative approaches. One tool for motivating federal workers is the Hammer Award, usually presented by Gore. The \$6 hammer, mounted on a plaque, is a reminder that the government used to spend \$400 to buy each hammer.

According to the independent General Accounting Office, 98 per cent of the review's first tranche of proposals has been at least partly implemented. This has produced net savings of more than \$100bn and the smallest federal workforce in 30 years.

Inevitably, the review has had failures. For example, in 1993 President Clinton ordered the federal government to cut the ratio of supervisors to workers. According to Doug Farbrotter at the review, many agencies have made only cosmetic changes, such as calling a supervisor a "team leader".

The review's top priority now is to deliver more widespread, visible change to the public. "The challenge ahead is to move the whole effort from a series of experiments to how government normally runs," says Elaina Kamensky, Gore's senior policy adviser. Or, as Gore put it: "To move from liberating single offices to liberating whole agencies and finally to liberate the entire federal government."

**Linda Bilmes** is a management consultant who has worked with government organisations. Her book, *Enlightened Employment*, will be published next year.



## PARTNERS

### Indian Ocean Trading Co



deliver everything flat packed, but our clients expect their goods to arrive in the condition they bought them. I've often paid a fortune for furniture then spent a week putting it together, which just isn't right."

James: "We were like two adventurists, naughty boys at first. We'd left good jobs to head off to Madagascar, so of course everybody thought we were potty. The exception was my father. He worked as the country's honorary consul, which was a great help because he had some terribly good contacts names and addresses.

In our first year of business we did 40 exhibitions trying to sell not only parasols but other pieces of garden furniture. One of us would stay in the office manning the phone, while the other would load up the van.

It was invariably raining when you set off and raining when you packed up, which meant driving to somewhere like Harrogate, and back, through.

If we weren't on the road, we'd be in the office cold-calling, or thinking up whacky ways to advertise. I once organised a bicycle polo match at the Hurlingham Club and lined the pitch with parasols. In the early days we'd exhibit at point-to-points because it was cheap and I knew the green-welly brigade were our sort of customers.

I think our worst time was a flower show we did in Miami. Graeme and I sat for four days in boiling heat. I think the only reason we got any orders was because we were flying the Union Jack.

At least now we can employ other people, which means neither of us has to do [exhibitions] any more."

Fiona Lafferty

## An about turn for veterans

**O**ne notable success has been the "reinvention" of the regional office serving war veterans

in four years we have done all this.

Veterans were unhappy with the whole way we were structured," says Joe Thompson, a Vietnam veteran who runs the office. "We were set up like an assembly line, with 25 steps to process a disability claim. When a veteran would phone in for information, he would speak to someone outside this process, who could never answer the question. It was enormously frustrating.

"In April 1993 the National Performance Review designated us as a 'reinvention lab'. That gave us the freedom to be experimental. We went to IBM and AT&T and saw that we needed to change

our organisational structure, workflow, jobs, performance measures and compensation systems. In four years we have done all this.

"We created self-managing

teams, eliminated half the supervisory positions, and shortened the process from 25 to eight steps. One person on the team is the designated contact point for each veteran. We adopted the 'balanced scorecard' approach to measure performance, and we added in measures of customer satisfaction and employee development. Now we're trying to replace civil service pay scales with skill-based pay."

The result has been significant fall in veterans' enquiries – down from 2,000 to under 1,000 calls per day. In a final twist, private companies, including Col-

gate-Palmolive, have visited Thompson – seeking advice on how to re-engineer their own operations.

Another success relates to the way regulatory agencies work with the private sector. Traditionally, these agencies had an adversarial relationship with the industries they regulated. Inspectors assumed guilt unless innocence was proven. This approach was reinforced by internal performance measures.

The State of Maine used to have the country's worst record of safety at work. Paradoxically, the local Occupational Health and Safety Administration was ranked as one of the best because it made the most inspections, found the most violations, and levied the highest fines.

Armed with the reinvention

Linda Bilmes

## Sex may be interesting, but not significant

**T**he headline in last Wednesday's Daily Telegraph said: "Boardroom v boardroom: the Ronson dilemma". The picture showed entrepreneur Howard Hodgson in bed wearing nothing but a smug expression.

I stared at the picture, transfixed by the padded headboard and the swagged curtains behind it. The point of the piece, however, was not to comment on Hodgson's taste in soft furnishings, but to suggest that his relationship with a fellow director was connected to his being ousted from Ronson.

Hodgson's departure had nothing to do with his affair with Christine Pickles, the company's corporate development director. At issue was a different sort of pickle – the financial pickle the company is in.

While the Telegraph speculated that the existence of a boardroom relationship had gone down badly in the City, I credit the City with more sense. Being romantically entangled with the people you work with is a fact of business life. Think of the Roddicks, the Clintons, of Bill Gates, Michael Green – all have married colleagues. I married one myself, come to that. According to surveys half the workforce has at some time had an office relationship.

For the most part there is no problem. Difficulties may arise if the couple start to fight at work, or when the more senior of the two unfairly promotes their other half. But if this sort of thing is going on it suggests something more fundamental is wrong with the way that the company is being managed.

This does not mean that Hodgson's sex life is of no interest, however. The former funeral director and author of *How to be Dead Rich* has sought publicity, and a natural response is to be interested in his succession of blonde partners. The private lives of business people may have nothing to do with their ability

to do the job, but we are human too, and many of us can't resist gossip.

The Labour party's first serious brush with business has not been a pretty sight. First it appears to misunderstand that Camelot is a private sector company that has acted according to its rules. Instead it feigns outrage and insists that the lottery bosses give their perfectly legitimate bonuses back – a cynical move designed to appeal to a nation of fat cat haters. Only then it all goes wrong, the lottery bosses

"HE'S A TIGER IN THE BOARDROOM."



Lucy Kellaway

Until last week I had never heard of flame-mail. Yet apparently these nasty, bullying e-mail messages have become a grievous office problem. Half of the workforce suffers from this new form of harassment. One in 70 have been so upset they have left their jobs as a result, according to a report published last week by Novell UK, a software outfit.

The main culprits are bosses who send upsetting and demotivating electronic messages instead of dealing with underlings face to face. The result is alienation. So much e-mail makes the office impersonal and employees waste hour upon hour sending and reading messages.

I find this hard to take seriously. E-mail does not create bullies. If these bosses were not abusing their staff through e-mail they would be doing it in another way.

And it is nonsense to suggest that e-mail is making offices less personal. E-mail encourages pleasant communication between colleagues. If you receive a message that makes you laugh out loud your day is better for it.

The latest non-subject to be vexing personnel directors is that of job-hopping graduates. Delegates at last week's Institute of Personnel and Development conference were told that one in three graduates quits their first job within three years, which apparently costs British industry £300m a year. This caused head shaking, but it seems to me that the turnover is on the low side.

Recruiting is always an uncertain business, and most graduates do not know if they like something until they have tried it. If two out of three graduates get the choice right first time, that seems like one of the few things that personnel directors could actually feel good about.

**Telecommunications**  
Are you in touch?

FT telecoms-Wednesday, June 11.  
To stay in touch with global developments in the telecommunications industry, particularly the imminent changes to operating practices across Europe, get the Financial Times on Wednesday.

**FINANCIAL TIMES**  
No FT, no comment.





## MARKETING / ADVERTISING / MEDIA

## ADVERTISING

# The haredim singled out for hard-sell

Campaigns aimed at the devout respect tradition, says Avi Machlis

**W**hen Pepsi-Cola was launched in Israel in 1992 with a campaign depicting human evolution from ape to Pepsi drinker, Israel's extremely devout ultra-orthodox religious Jews were furious and eventually boycotted the drink.

By challenging their anti-evolutionary views, Pepsi bungled an opportunity to penetrate Israel's most rapidly growing market. They were not alone. Many Israeli companies were at loggerheads with the religious groups, who often set bus stops on fire which displayed advertisements featuring bikini-clad, or even bare-armed, women which they considered immodest.

Five years later, Israeli companies are avoiding confrontation. The lessons they are learning are relevant for companies entering emerging markets with large traditional populations. "There are traditional people all over the world who don't react positively to ads featuring scantily-clad men or women drinking a cola," says Daniel Carasso, Israeli analyst for Union Bank of Switzerland. "They say 'I don't want to be that person' and it distances them from purchasing. In Israel, the religious market is a tremendous market that

has been totally ignored."

The ultra-orthodox or *haredi* population has nearly doubled since 1990 to about 600,000, or 10 per cent of Israel's population. Yehoshua Lieberman, an Israeli business professor, says their annual spending power on non-durable goods is about Shk3.5bn (\$600m) and will rise to Shk4.5bn by the end of the decade.

Consumer spending per head is much lower than the Israeli average since most *haredi* families are large. But more than 40 per cent of their money tends to be spent on products such as food.

Blue Square, Israel's largest retailing chain, has three large supermarkets in ultra-orthodox areas. "Such stores did not exist in the orthodox sector before we entered two years ago," says Jacob Gelbard, Blue Square's chief executive.

You won't find European brands in these stores, since the ultra-orthodox adhere rigidly to kosher dietary laws. But religious items such as ritual candles and prayer shawls line the shelves alongside products stamped with eight different Kosher certifications.

These stores have recorded higher sales per square meter than the chain's regular supermarkets.



Screen ads are unnecessary: the ultra-orthodox are forbidden to own TVs

Other companies have simply tailored their advertising messages in separate campaigns.

Rachel Bolton's small advertising agency in Tel Aviv aims exclusively at the ultra-orthodox for several leading Israeli companies. "The needs of these consumers are completely different," she says. "Depicting a product as being 'in' or 'cool' simply doesn't speak to them."

The Wissotzky tea company, for example, ran a national campaign with exotic scenes shot in Asia. "The *haredi* community doesn't want to feel the Far East entering their homes," Bolton explains. Her ad

shows three bearded men studying the Torah.

Tradition also helps keep costs down. Television ads are unnecessary, since the ultra-orthodox are forbidden to own televisions. Instead, inexpensive ads are placed in *haredi* newspapers. Poster-boards are popular in their insular neighborhoods.

And although the ultra-orthodox seek a life isolated from the secular world, they want new products. "Many customers say we have done them a favour," says Gelbard. "For the first time, someone is asking them to come in and shop."

**T**he British ad industry sometimes has an aberration of taste so painful that it leaves one gasping at the television in disbelief. Fortunately such lapses are relatively rare in a business that prides itself on self-regulation. Unfortunately, the new Rover 600 commercial was one such moment.

Rover has been forced to withdraw the ad and apologise. It had never, said the company, intended the ad to be controversial.

Certainly there was no violence in the ad, not even implicit; there was no loud, boisterous behaviour; there was not even any sex. It was simply poor taste.

Briefly, a British hostage was released from long-term captivity in an exchange. Still blindfolded, he was bundled into a new Rover 600, and met by a "welcome back, sir" from a Foreign Office minion. Meanwhile, his former captors whooped and hollered atop a battered old lorry, delighted to get their man back.

Our hostage was oblivious to his welcome. Still blindfolded, he was too busy feeling, caressing even, the leather upholstery of the Rover's interior. In a scene of extraordinary crassness, he lifted the blindfold from

one eye, and broke into a big grin because now he knows he can really can relax.

Let's try to be fair to Rover, and its advertising agency, AP Lintas. If you watched last year's fascinating BBC2 documentary series, "When Rover met BMW", you will know that the company agonised in its attempts to find something to say about its unremarkable cars.

The quality of those cars has nevertheless come on leaps and bounds during the past decade, but it is difficult to convey such a turnaround to a public that has a long memory. As that documentary showed, Rover plumped for a certain quality of "Englishness" and "relaxed motoring" as marketable brand propositions.

The previous "Englishman in New York" Rover 400 ad made some sense of this idea.

In "Hostage", however, the leap between advertising strategy and finished commercial was risible. What must the German bosses at BMW, responsible for the benchmark in understated advertising, have made of this hoardiness?

The author is editor of Campaign

Stefano Hatfield

## Ad in the News • The Rover 600

## Hostage slips past watchdogs

people winces on first viewing have slipped through so many taste sensitivities?

Let's try to be fair to Rover, and its advertising agency, AP Lintas. If you watched last year's fascinating BBC2 documentary series, "When Rover met BMW", you will know that the company agonised in its attempts to find something to say about its unremarkable cars.

The quality of those cars has nevertheless come on leaps and bounds during the past decade, but it is difficult to convey such a turnaround to a public that has a long memory. As that documentary showed, Rover plumped for a certain quality of "Englishness" and "relaxed motoring" as marketable brand propositions.

The previous "Englishman in New York" Rover 400 ad made some sense of this idea.

In "Hostage", however, the leap between advertising strategy and finished commercial was risible. What must the German bosses at BMW, responsible for the benchmark in understated advertising, have made of this hoardiness?

The author is editor of Campaign

Stefano Hatfield

## MARKETING

## Sleepwalkers jostle the sensualists

Alison Maitland maps the increasingly competitive UK yellow fats market

Brian Cardy, managing director of St Ivel Chilled Products

St Ivel's "sleepwalkers" are a large group who clearly find all this confusing and stick to what they have always bought – not the best targets for advertisers.

"Dieting masochists" opt for the lowest-fat margarines. "Health technicians" choose products high in essential fatty acids recommended by medical experts. "New naturals" are keen on products made from olive oil.

But it is the "sensualists" over whom the yellow fat manufacturers fight most fiercely. These consumers have led the trend away from the health preoccupations of the 1980s to the preference in the 1990s for products with a "buttery" flavour but less fat than the real thing.

Dairy spreads, made from vegetable oil and buttermilk, are the fastest-growing segment in a £900m butter and margarine market that has declined in volume by about 2 per cent

this decade, according to market researchers AC Nielsen.

Priced higher than margarines but lower than butter, dairy spreads have captured about 33 per cent of the market by value – a share second only to that of soft margarine, with 35 per cent but falling.

The market is dominated by Unilever's Van den Berg Foods with 44 per cent. It is followed by Unigate (the company's annual results are announced today) whose St Ivel took

over Kraft's European spreads business last year to give it 25 per cent.

Dairy Crest has about 12 per cent. Despite Van den Berg's pre-eminence, Dairy Crest launched dairy spreads in 1984 with Clover, still the leading brand. Van den Berg replied five years ago with I Can't Believe It's Not Butter and St Ivel launched Utterly Butterly in 1995.

Entering this jostling market can be an expensive and painful business. The advertising spend on margarine and

spreads is the highest in the dairy sector at £23m-£26m a year, according to Key Note, market research publishers.

Van den Berg has so far spent about £25m marketing Dalesby's, its premium-priced, "traditional" spread, launched last autumn. But it has gained only a 3 per cent share of the sector. Guy Walker, chairman of Van den Berg, admits disappointment but points out that well-known brands Flora and Olivie both needed a couple of years to take off.

Differentiation also seems never-ending. St Ivel brands are being given new packaging and I Can't Believe It's Not Butter is being relaunched with emphasis on taste and texture.

Clover, on which Dairy Crest spends about £12m a year in total marketing support, underwent a packaging redesign last year.

We have solidity...



A good memory...



History...



And, ever increasing agility.

*The Portucel Group is qualified to compete with agility on the demanding international markets. The Group has an autonomous organization, in which the different activities, from the forest to the manufacturing of pulp and paper, are guaranteed by distinct companies. Each company has its own clients, competitors, goals and aims. At the same time, Portucel SGPS, the holding responsible for defining the general objectives and strategies of the Group, guarantees the convergence of each company's objectives. It is not by chance that we are the largest European manufacturer of eucalyptus pulp for paper. As, it is not by chance, that we are one of the largest European exporters, selling 75% of our production to world markets.*

*All this is the result of a responsible and flexible organization. An organization that measures up to one of the most important realities of the Portuguese economy, with a strong international vocation. A solid group of companies with a light structure, in order to reach farthest and faster.*

**PORTUCEL**  
GRUPO PORTUCEL

Evolution is part of our nature.

Rua Joaquim António de Aguiar, 3 - 1070 Lisboa-Portugal  
Telephone 351-01-386 08 57 - Fax 351-01-386 0016

PORTUCEL INDUSTRIAL • PORTUCEL FLORESTAL • PORTUCEL TEJO • PORTUCEL VIANA • PORTUCEL EMBALAGEM • PORTUCEL RECICLA • GESSARÃO • PORTUCEL INTERNACIONAL

## Standard Chartered

## Base Rate

On and after

9th June 1997

Standard Chartered Bank's

Base Rate for lending  
is being increased  
from 6.25% to 6.50%

Standard Chartered Bank

Head Office: 1 Aldermanbury Square, London EC2V 7SB  
Tel 0171 280 7500 - Telex 885951

## BASE RATE CHANGE

Union Bank of Switzerland, London

announces that

with effect from the close of business

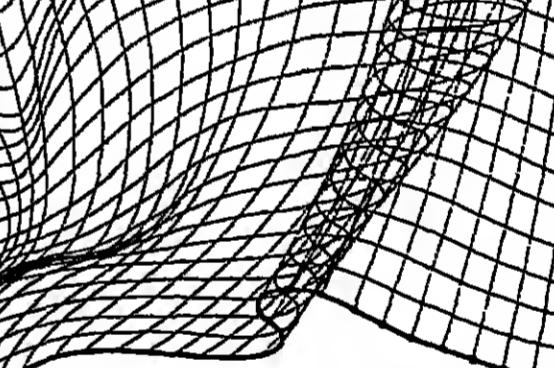
on 6th June, 1997

the Base Rate was increased from

6 1/4% PA to 6 1/2% PA.

**UBS**

Union Bank of Switzerland, PO Box 428,  
100 Liverpool Street, London EC2M 2RH.  
Incorporated in Switzerland with limited liability.



FT Discovery.

The instant way to hook the information you need.

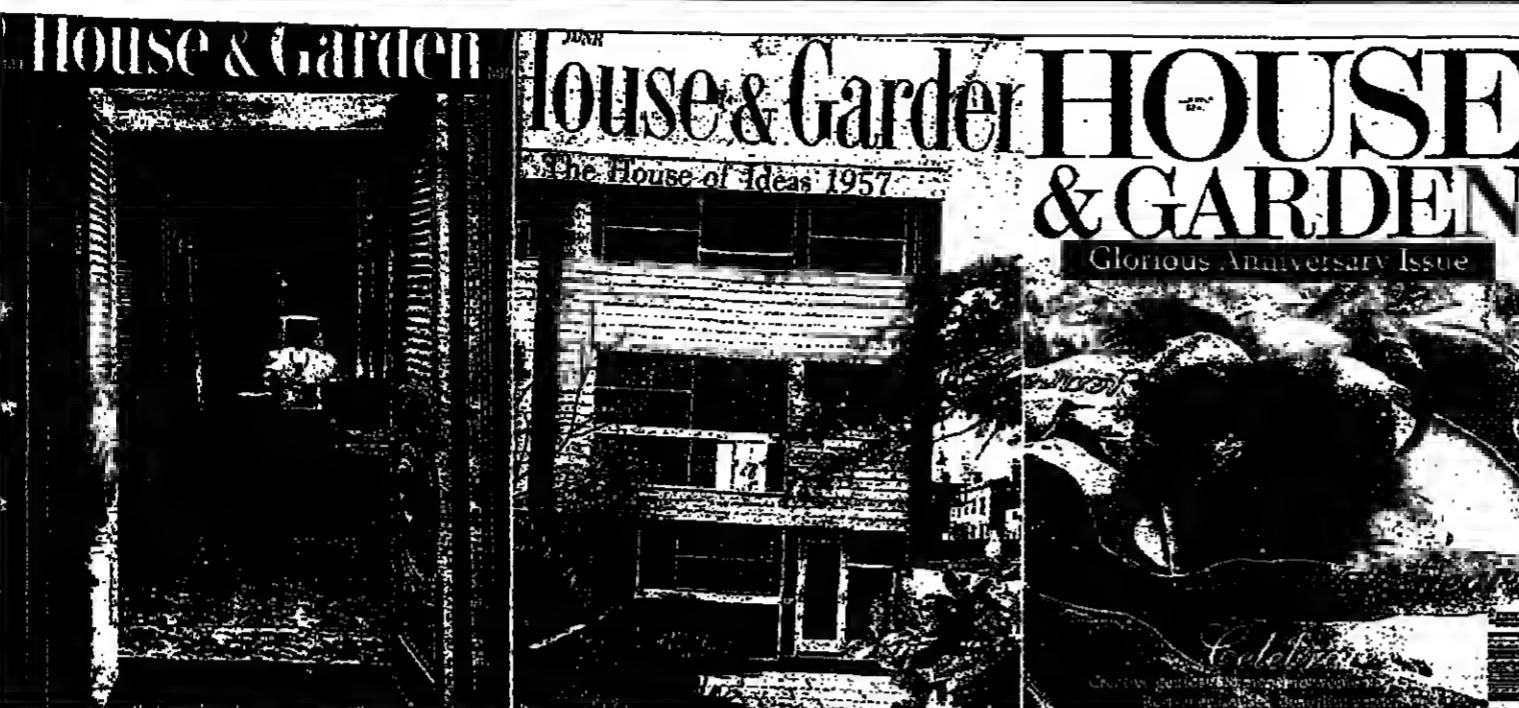
Do you waste time searching for the right information? There is a solution - FT Discovery. For company information, business news, real time news and much more. It couldn't be easier. Simple to use. Online. At your desk. At a fixed price.

So if you want to stop fishing, call the FT Discovery information line on +44(0) 171 826 8006, email: [ftdiscovery@bt.com](mailto:ftdiscovery@bt.com) or fill in the coupon.

|   |  |
|---|--|
| <b>FT</b>   | Yes, I would like to stop fishing for business information. Please have a representative call me to discuss my requirements. |
| NAME _____  | POSITION _____   |
| COMPANY _____   | POSTCODE _____   |
| ADDRESS _____   | OFFICE PHONE NUMBER _____  |
| NATURE OF COMPANY'S BUSINESS _____  |  |
| Phone FT Discovery Information line on +44 (0) 171 826 8006 or email: <a href="mailto:ftdiscovery@bt.com">ftdiscovery@bt.com</a> or post to FT Discovery, Financial Times Information, Finsbury House, 12-17 Finsbury Street, London, EC2A 4YD. |  |

**FT Discovery**

## MARKETING / ADVERTISING / MEDIA



House &amp; Garden this month celebrates 50 years of bringing good design to a wider audience

**A half century free of 'fluff'**

House &amp; Garden, once full of tips for coping with austerity, has rising sales

**H**ouse & Garden, the up-market magazine which has specialised in bringing good design to a wider audience, marks its half century this month with a celebration of British design during the past 50 years, writes Raymond Snoddy.

In the 1940s, the magazine explains, it tried to be "a stylish source of inspiration for coping with austerity" with a slant towards practicality and improvisation

(although Cecil Beaton was featured "at home" in his 1920s house).

By the early 1950s such well-known British designers as Terence Conran and David Hicks made their first appearances and in the 1960s John Fowler - "doyen of the English country house interior" - rubbed shoulders with Michael Heseltine and his bride in their first home, David Hockney, Jean Muir, Mary Quant and Twiggy.

By the 1970s Jan Kaplicky and Richard Rogers were

advocating their own brands of modernism at the same time as John Makepeace was spearheading a new age of craftsmanship in wood.

In the 1980s "chintzes, tolles de Jouy, swags, tassels, stencilling, striping, marbling, Stickmeier, candle-shades and Again became best-sellers".

In the present decade, House & Garden believes, the trends include simpler versions of the country-

house look and "beefed-up interpretations of Minimalism."

The present editor Sna Crewe, who is only the fourth in the magazine's history, describes herself as the typical House & Garden reader. "I am aware and passionate about how I live. I garden. I cook. I travel. I go to exhibitions and I am careful about what I pay for things."

She came to magazine editing via running a dairy farm and later freelance

writing. She was also in charge of *Jeanne's Diary* in *Harper's & Queen* magazine for a year.

Crewe insists that House & Garden is not a "fluffy" magazine. "We assume our readers are informed, not experts. But we don't protect them from the proper names of plants, for instance."

The concept appears to be working rather well. Circulation - which was 150,000 when she took over - is now at a record 157,000.

## TELEVISION

**India's DTH satellite TV grounded**

A broadcast bill has left installation engineers in limbo, says Mark Nicholson

**T**he satellite is up, the installation engineers are trained and ready, the customer service staff in place, the glossy brochures printed. Indian Sky Broadcasting has even taken out full-page press ads to introduce a new concept to India - direct-to-home satellite broadcasting.

But they are kicking their heels in the wood-panelled Delhi offices of ISkyB, the Indian DTH associate of Rupert Murdoch's Star TV.

The 180 ISkyB staff have been ready for weeks to launch a \$300m (£184m) operation to introduce India's first DTH TV service. DTH means subscribers draw channels from their own small satellite dish and decoder box. But according to Urmila Gupta, executive director of News Television (India), Murdoch's Indian TV joint venture: "Our main worry is holding on to these people we've carefully hired and trained."

The delay is a result of the Indian broadcast bill, tabled last month, which would require the licensing of all foreign satellite broadcasters into India.

It would force all such channels to originate their

signals within India and it would also force DTH services, like ISkyB's, to bid competitively for licences.

The bill, before a parliamentary committee, may be amended next month. But only once the bill is finally passed and a new independent Broadcast Authority is created will any licence bidding process begin.

The bill has brought to an indefinite halt plans by ISkyB to roll out a DTH service which its executives believe could have reached a break-even audience of 1m subscribers within four years. The company expected 150,000 viewers - mainly affluent city dwellers - and its books by the end of this year.

ISkyB believes many who can afford twice the monthly Rs250 rental generally charged by India's 75,000 cable operators will pay for improved signal quality and a better choice of viewing.

Cable is a rough and ready business in India. Most "cablewallahs" simply catch signals in big dishes above their offices then string out looping webs of cables to all households within reach.

For the broadcaster, DTH also offers hope of making money in what has become a ferociously competitive but largely loosening market since the advent of satellite TV to India.

Barely four of 33 channels beamed into India, including a plethora of poorly capitalised locals competing with

and educational channels in addition to the 33 channels - like Star, CNN, ESPN, Sony Entertainment, Home TV and others - which have beamed into India for the past six years. It would very likely have included India's first 24-hour indigenous news channel.

The DTH package is much pricier than cable, which already brings satellite TV to an estimated 17m Indian viewers among the 57m who own books by the end of this year.

It has also raised a host of new questions for ISkyB, such as how much a new licence would cost, and how much would have to be added on to its envisaged subscription fee.

ISkyB is aiming at a wealthy niche market. DTH viewers would at first have to pay Rs10,000 (\$275) for dish and decoder (about half the cost of the units, subsidised by ISkyB) plus monthly rental of Rs42.

The package of channels would include movie, sport

big international broadcasters like ESPN or Star, are believed to make money.

DTH offers the prospect of eventually reaching homes out of reach of the present "cablewallahs". A recent study by McKinsey, the consultant, noted that DTH "possesses a peerless ability to reach geographically dispersed subscribers". It identified India - where 75 per cent of people live in rural areas - with Mexico and China as prime future markets for the system. India's rural areas are not by definition unsophisticated but people in rural areas may prefer educational and regional language programs as distinct from westernised programmes. Such programmes are proving very successful in Madras, for example.

Jaipal Reddy, India's new broadcast and information minister, says the law was long overdue to legislate for media which did not exist by laws when the 112-year-old Indian Telegraph Act was framed.

It was also designed, Reddy said, to offer local TV companies players a "Jewel playing field", allowing them for the first time to beam signals from India, and

simultaneously forcing licences on existing foreign broadcasters.

But most foreign broadcasters, and particularly ISkyB, believe the bill has been specifically designed to deal with a perceived threat, both by some politicians and a strong lobby of domestic television entrepreneurs, of foreign broadcast "domination" or telecolonialism.

Tim Jackson · On the Web

**A solution to junk mail**

**O**ne of the most satisfying kinds of business identifies a pair of problems, and makes money solving both. Last week I came across a striking example: Aristotle Publishing of San Francisco.

Aristotle ([www.aristotle.org](http://www.aristotle.org)) hopes to profit from dealing with two hot issues on the internet: the irritation of users sent unsolicited advertising by e-mail, and the understandable wish of direct marketers to reach customers by this cheap and quick means.

So contentious is the conflict of interest between senders and recipients of junk e-mail that Senator Frank Murkowski of Alaska proposes a bill which would require junk mailers to mark their outgoing e-mails with ADVERTISEMENT AT THE start of the subject header, and to include the sender's phone number and mailing address. Non-compliance would be punishable by fines up to \$1,000.

If the bill becomes law, it will be hard to enforce beyond US jurisdiction. Would the fly-by-night outfit be aimed at being deterred by fines when they are already flouting laws against pyramid schemes and other financial frauds which could mean jail?

It makes more sense to recognise that some internet users will be willing under some circumstances to receive some messages from direct marketers - and to try to find a way of passing on the postage savings from sender to recipient.

Last year, I wrote about a company called CyberGold, which had set up an e-mail service offering consumers money if they read the junk mail sent to them.

Aristotle is based on the same idea, with a twist. While CyberGold and others are forced to build their businesses organically, Aristotle aims to start by signing up the biggest junk mailer of all - the government.

Using the most reliable mailing database in America - the registration records of all 138m voters - Aristotle is offering public-sector organisations a chance to cut their mail costs by sending status reports to citizens electronically.

Here's how it works. Consumers sign up, attracted by the idea of receiving an average of 50 cents for each piece of mail they read, and Aristotle checks their details against the voter registration records.

The company then activates the consumer's mailbox. When a consumer uses the Web to read mail from the Aristotle server, the company can prove that the message has been read by

the recipient. So the e-mail counts as delivered under US law - and a government body can use e-mail instead of the post to satisfy its statutory obligation to send certain mailings.

Consumers can either save up the reading fees they receive until they reach \$100, and then get a cheque or they can offset their credit balance against a tax bill or fee payable to a government authority that uses the service. They can fill in a checklist of their interests, indicating what kinds of junk mail they are willing to be paid to read.

Aristotle's business model proposes passing on to the people reading the e-mail slightly more than half the fees charged to commercial mailing companies.

But there are other sources of revenue, too. The company can segment its database, charging premium prices, for instance, to access consumers who have expressed an interest in mailing; and it can arrange promotions where consumers can claim rebates if they respond, and the advertiser pays Aristotle a bounty for bringing in a new customer.

The idea may sound alarmingly easy to imitate. But John Aristotle Phillips, the company's founder, believes the barriers to entry are considerable. The database must be built up from 3,000 different records held

in counties and municipalities across the US, many of which require an affidavit from an election candidate.

Phillips has a secret weapon: he is also the founder of a company that markets software called Campaign Manager and has assembled a national voter database.

Phillips's greatest success is to have signed up as a customer Bill Jones, California's secretary of state, who sends 14m pieces of mail to state voters twice a year. Last week, Phillips was preparing to announce a deal with Direct Media, one of the biggest direct marketers companies in the US, which handles distribution of 36 mail-order catalogues.

His dream is that Aristotle's leading catalogue houses will soon send out catalogues in wrappers telling customers that they can be paid to read the same catalogues online.

Phillips believes he has a good chance of signing up 5 per cent of the households in the US by 2001, and replacing 10 per cent of the 1,000 pieces of paper mail sent to the average household.

No wonder the company is seeking \$2m in venture funding. But this is one of the better new business ideas that I have seen on the Web for a while. It just might work.

tim.jackson@pobox.com

JAYNE SNODDY

Raymond Snoddy · Media

**Auntie has digital fever**

**B**efore long the BBC will begin making dummy programmes for its 24-hours-a-day digital television news service for the UK.

The editors are already hired and market research is under way. You can be sure that everything will be meticulous and carried out to the highest, if not the most economical, of standards. But at £30m to set up, and a mere £10m or £12m a year to run, it must be a bargain.

On the face of it such a news service is a thoroughly commendable development for the corporation. It is almost a responsibility for the BBC to use the luxury of its £1.8bn a year licence-fee funding to be a pioneer and to follow where technology is leading.

After all, the BBC is certainly the world's most famous, and possibly even its most effective public service broadcaster.

The television news service is only one of five or six digital services being launched by the BBC in the next 12 months, paid for out of the licence fee.

It all seems silly and unnecessary on such a scale. Why could not the BBC, at least at the outset, simply have broadcast BBC World, its existing 24-hour television news service for overseas audiences, on digital and satellite company.

Lest licence-fee payers

become that the BBC is present on any passing digital platform, whether digital satellite, digital cable, digital terrestrial television or even the PC.

There are problems of timing, cost and scale, not to mention the effect on existing programmes which are already being squeezed to pay for these grandiose adventures.

At least the 24-hour digital news service will probably have plenty of time to perfect its technique. British Sky Broadcasting has postponed the launch of its own digital service until next spring and the cable industry could easily follow suit, although it has the capability of launching this autumn. Digital terrestrial is supposed to start broadcasting by next July at the latest, but little of consequence is likely to happen before the autumn of 1998.

For at least a year, the BBC is likely to be broadcasting a 24-hour digital television news service to hardly anyone and after that to tiny audiences for at least a year or two.

It all seems silly and unnecessary on such a scale. Why could not the BBC, at least at the outset, simply have broadcast BBC World, its existing 24-hour television news service for overseas audiences, on digital and satellite company.

Lest licence-fee payers

become alarmed at Auntie's present infatuation with all things digital, the BBC chairman Sir Christopher Eland happily trills that the corporation has no intention of "betting the shop" on such ventures.

It seems that only £280m out of the corporation's present surplus of £500m has been allocated to the digital future, including the cost of introducing digital technology throughout the corporation. It is only possible to raise one half-hearted cheer for all this apparently rational activity that seeks

The time to launch a dedicated domestic service would be when digital has made some real impact and is in, say, 50,000 of the UK's 22m homes with televisions.

It all depends, of course, on what view you take on how fast consumers will embrace digital television. The BBC appears to think there will be queues around the block to buy digital "blackbox" decoders.

That seems unlikely. All the evidence from around the world so far suggests that digital, despite the potential of offering 200 channels of television, is making slow progress. "People aren't coming to the digital party," a leading satellite broadcaster has said. That broadcaster believes that not only will it be tough but that exclusive sport and movies are the only effective drivers.

If the BBC management had their noses less deeply in the digits they might be able to pay a little more attention to more pressing problems - such as the continuing loss of sports rights to other broadcasters; what staff say is the worsening, mind-numbing bureaucracy in the corporation; and the small fact that since November the BBC has been unable to persuade anyone of merit to head what ought to be one of the best drama departments in the world.

The BBC has launched a period of public consultation on its digital and multi-channel plans but the corporation only consults the public once its mind is made up.

It took a march of the middle classes on Broadcasting House to prevent Radio 4 from being removed from medium wave. Something similar will be needed to persuade the BBC that a more measured approach to the digital world would be wiser than its present "courageous" big plan.

## FTid - The Internet Directory

## Internet Directories

All of these can be accessed via hyperlink directly from the Financial Times at <http://www.FT.com>

## Get your business on the Internet...

International Internet Name Registration

net names

FREEPHONE 0800 269042 [netnames.co.uk](http://www.netnames.co.uk)

Have you registered your company, trade and product names around the world? 300,000+ names are already registered, are yours?

Protect Yourself. Register Now

## HOTEL &amp; TRAVEL INDEX ONLINE

REED TRAVELER.NET

THE ONE-STOP SOURCE FOR ACCOMMODATIONS INFORMATION WORLDWIDE.

<http://www.traveler.net/tio>

over 100,000 call access

Telephone: (201) 902-7768

FAX: (201) 902-7768

E-mail: [tio@reeds.com](mailto:tio@reeds.com)Read it at [www.ft-television.com](http://www.ft-television.com) (or [www.tio.co.uk](http://www.tio.co.uk))

www.reedtraveler.net

www.reedtraveler.net

www.reedtraveler.net

www.reedtraveler.net

www.reedtraveler.net

www.reedtraveler.net

www.reedtraveler.net

www.reedtraveler.net





**H**ence, loathed Melancholy and blackest Midnight," intones the tenor soloist in his opening words. And hence they smartly go in Mark Morris's irrepressibly buoyant dance entertainment, happily slapping each other on the thighs and swapping partners as they go.

Handel is not often so much fun. It was back in 1988 that Morris hit upon the idea of turning *L'Allegro, il penseroso ed il moderato* into a ballet. It was a hit with its first audiences at La Monnaie in Brussels and Morris's version has subsequently travelled widely, taking in the Edinburgh Festival in 1994 before arriving last week at the London Coliseum after nearly a decade on the road. By now it has become something of a modern classic in the dance world.

So this is a good moment to take stock and look at Morris's achievement from the musical point of view. After all, his *L'Allegro* has turned up in London as part of the standard English National Opera season, sandwiched between *Coriolan* and *La traviata* (and is a good deal more enjoyable than the current ENO productions of either, I hear opera cynics say). It cannot exactly be described as an equal match between dance and opera, because Handel's score is strictly an ode, but the two halves are still of near equal importance.

Morris has supplied dancers and sets, ENO its house chorus and orchestra, together with five guest solo singers and conductor. Presumably there must be a bit of compromise here, as a conductor with a will of his (or her) own could easily have the dancers galloping about at twice their usual pace or, alternatively, balanced precariously on tiptoe, desperately longing for the next chord. Jane Glover seemed to set speeds that kept the dancers happy and obtained a neat, rhythmic style from the orchestra, even if the phrasing was not particularly expressive - flat-footed, perhaps, would be the word.

With the dancers occupying the whole stage, the solo singers and chorus are accommodated in

the pit, which means the words

have little chance of getting across.

It is a hard life for the

soloists down there, as the acoustic robes them of any bloom on

the voice, but ENO's starry quintet in any case seemed to me less inspiring than their names might have suggested. The outstanding one of the five was Janice Watson, whose singing had a quality of tone from top to bottom and an ability to mould notes into long lines that was worth hearing on its own.

Of the others, Ashley Holland

was the sort of strong and decisive bass, with surprisingly nimble coloratura; that used to sing in old-style performances of *The Messiah*, Michael Chance, getting the most poignant music as the counter-tenor, phrased with exemplary sensitivity. Ian Bostidge was disappointing in the tenor solos, not nearly sharply focused enough in the upper half of the voice, and Susan Gritten, the second soprano, tended to pick at individual notes. But, hidden where they were, I doubt many people in the audience

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

works from those, creating movements that are in harmony with the musicians. To complement the score, he has devised mirror images, geometrical patterns, abstract visual forms, and just a couple of representational scenes: the hunt, with the dancers playing the trees, the stag and the huntsmen, and a couple of hounds which stop to peep on the bushes, is very camp - but, oddly, very funny. All its works so well that Morris should surely consider taking his hand to some of Purcell's Odes as well.

As long as it is in demand elsewhere, the COE can hardly complain. Its guiding principles are musical and financial independence. Contrary to widespread belief, it receives no subsidy. The vast bulk of its £2m turnover comes from concert and recording fees. Each of its 50 odd members is paid the same; all are expected to give between 100 and 120 days of the year to COE projects - a loose arrangement which has helped the COE to maintain its collective élan.

Most of the original members

were alumni of the European Community Youth Orchestra who wanted to continue working together. The idea was to make music like an expanded string quartet - drawing on the experience of eminent conductors and soloists, but in a chamber music format.

In the early years, Claudio Abbado opened doors in

European capitals, and the COE's award-winning recordings with him helped to establish its name.

In the 1990s, the orchestra has

been more regularly identified

with

Nikolaus Harnoncourt. The

key to the COE's style, however,

is diversity: it allows no single

conductor to dominate. That

explains its chameleon-like quality. "We look for conductors who have something new to say, juxtaposed to what we're used to," says double-bass player Dana Roberts. "Contrasts are important to us - to show how different the orchestra can sound, to delve into the piece in the way each conductor sees it. We're not beholden to anyone: we're a group with something to say. It's a different atmosphere to most orchestras, where everything is focused on one conductor."

**T**hat atmosphere can be quite forbidding. As a self-motivated ensemble, the COE is renowned for its strong opinions. This has resulted in some spectacular fall-outs: Lorin Maazel alienated the musicians during a tension-wrecked US tour, and there were heated arguments two summers ago in Salzburg, when some had problems with Harnoncourt's interpretation of *Le nozze di Figaro*.

Readman had to act as peace-maker on that occasion - but the fact that the COE follows conductors' indications to the letter is one of its distinctive strengths. It explains why, in the COE's hands, the Schubert interpretations of Albrecht and Harnoncourt sound so polarised, why the orchestra can play Sibelius with *Pavlo Berglund* as enthusiastically as it does Haydn with Roger Norrington. Tonight's concert is Haitink's long-awaited COE debut. In 1998 there will be a Zimermann project with Heinz Holliger, and there is talk of a New York residency.

Compared to its London debut

in 1981, the COE today looks middle-aged: it still has 28 original members. What they may have lost in youthful idealism, they have gained in experience. The basic premise remains mutual respect within the ensemble. Readman sums up the orchestra's mission as "an unending quest for projects where we think the COE can do something worthwhile and generate enthusiasm. The sadness is we haven't yet succeeded in the place where most of us live."

Tonight's concert at the Barbican can feature works by Mozart, Wagner and Brahms. Haitink and the COE take the same programme to Frankfurt tomorrow, Brussels on Thursday, Paris on Saturday and Sunday, and Amsterdam next Monday.

## Having fun with Handel

**Richard Fairman on L'allegrò, il penseroso ed il moderato**

the pit, which means the words have little chance of getting across. It is a hard life for the soloists down there, as the acoustic robes them of any bloom on the voice, but ENO's starry quintet in any case seemed to me less inspiring than their names might have suggested. The outstanding one of the five was Janice Watson, whose singing had a quality of tone from top to bottom and an ability to mould notes into long lines that was worth hearing on its own.

Of the others, Ashley Holland

was the sort of strong and decisive bass, with surprisingly nimble coloratura; that used to sing in old-style performances of *The Messiah*, Michael Chance, getting the most poignant music as the counter-tenor, phrased with exemplary sensitivity. Ian Bostidge was disappointing in the tenor solos, not nearly sharply focused enough in the upper half of the voice, and Susan Gritten, the second soprano, tended to pick at individual notes. But, hidden where they were, I doubt many people in the audience

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

enjoyable than many - even

most - of the Handel operas

staging that we have to sit through these days. Morris has understood one basic requirement: that

the actions must come from the

music. *L'Allegro* is all dance rhythms at heart, and he simply

were really paying them much attention.

All eyes were on the stage. As

a music critic, I am hardly in a position to comment on the

dance, except to say that as a

visual expression of what we

were hearing, I found it more

## COMMENT &amp; ANALYSIS



Philip Stephens

## Budget balancing

Gordon Brown may wish to raise taxes but Tony Blair is determined to keep faith with Middle England

The political parameters for next month's Budget have been set in 10 Downing Street. Tony Blair wants nothing which would stir the accusation that New Labour had broken faith with middle England. Nor, beyond a windfall tax on privatised utilities, must the Budget call into question his love affair with business. Swinging tax increases are out.

The prime minister also wants the spotlight to stay on his welfare-to-work programme: the windfall tax on one side financing new employment or training opportunities for 250,000 young and long-term jobless on the other.

This sharp focus on welfare reform makes sense. Mr Blair's administration has had a tumultuously successful start. But it needs to sober up a little. It may be fun to grab the headlines but, across most of Whitehall, the gears of government have barely engaged. The line between slick presentation and gimmickry is perilously thin.

The British political system has an inherent, and dangerous, bias favouring the grand gesture over quiet competence. Mr Blair and his colleagues would do well to concentrate now on the careful detail which makes for effective government.

The word in the Treasury is that Gordon Brown, the chancellor, takes a rather more hawkish view on taxes. His pre-Budget audit of the public finances is calculated to put a pessimistic gloss on the legacy of John Major's government. I suppose you cannot blame him. He could hardly announce that he had inspected the books and found them in perfect condition.

He is playing, though, a dangerous game. His aides want to trim (from 2.5 to, say, 2.25 per cent) the Treasury's estimate of the economy's long-run potential growth rate. The change

would allow Mr Brown to don the mantle of prudence in his assessment of the outlook for public borrowing. But there would be a heavy cost. Mr Brown can hardly say he is raising taxes to pay for an overshoot in spending which he is pledged to resist.

The prospects for public borrowing have further confounded his prudent pessimism. The huge deficit which sank the Major government is fast disappearing. In Bonn and Paris, they are struggling to cut their deficits to 3 per cent of national income. If Mr Brown does nothing, Britain's will soon slip below 1 cent. To borrow a phrase, it can only get better.

The Green Budget from Goldman Sachs and the Institute for Fiscal Studies foresees a healthy surplus within two or three years.

There is still a powerful case for higher taxes. By changing the fiscal/moneymix, Mr Brown could shift demand in the economy from consumer spending towards investment. He would rob the Bank of England of the pretext for higher interest rates. He might also prick National Insurance contributions for the low paid.

For another, Mr Brown's cabinet colleagues will not surrender the right to bid for the Treasury's continued

for one thing it cannot avoid several sensitive decisions - on local authority finance, public sector pay and social security benefit levels to name but three.

For another, Mr Brown's cabinet colleagues will not surrender the right to bid for the Treasury's continued

for one thing it cannot avoid several sensitive decisions - on local authority finance, public sector pay and social security benefit levels to name but three.

It may be fun to grab headlines but the gears of government have barely engaged.

The line between slick presentation and gimmickry is perilously thin.

who put him into 10 Downing Street. My guess is that there will be a net increase in the tax burden but it will be relatively modest and camouflaged by a series of switches between different sources of revenue.

Mr Brown does not have to look far for such tricks. I would be surprised if he does not reduce, if not scrap, advance corporation tax. The pension funds would squeal, but the proceeds - upwards of £2bn - could be returned to improved investment incentives and help for small companies.

I would be horrified if Mr Blair's injunction prevents the chancellor from scrapping mortgage interest relief, at a saving of £2.5bn a year. No doubt Mr Blair is uneasy about the idea of robbing the Sierra-owning classes of this particular privilege.

But, along with the proceeds of higher green and tobacco taxes, it could be recycled into a big cut in income tax - including a 10p starting rate.

If he is serious about easing the tax/benefit trap, Mr Brown will also cut National Insurance contributions for the low paid.

Reduced allowances for corporate taxpayers would give him the money. And, in this Budget or the next, he will want to recast the tax treatment of savings vehicles like personal equity plans.

All in all, Mr Brown has ample scope to make a splash. On past form, he will grab the chance. But a word of caution. With his hands tied by Mr Blair and interest rates set by the Bank, the Budget's overall impact on the economy is likely to be slight. The chancellor would be wise to resist the temptation to daze too much. Budgets which attract adulatory first night notices rarely stand the test of time. Better for Mr Brown to show us he has stepped into the mind-set of government.

I somehow doubt, though, Mr Blair will see any of this as sufficient cause to break his promise to middle England. Big business might applaud, but he has no intention of losing the trust of the aspirant classes

## LETTERS TO THE EDITOR

Bridge, London SE1 9HL

We are pleased to receive letters from our readers. Letters may be faxed to +44 171 873 5833 (please set fax to 1000 hours) or e-mailed to the FT web site, <http://www.FT.com>. Letters in the main international languages.

## W German reform crucial to post-war recovery in Europe

From Dr Egon Sallay

which other, initially reac-

tant, countries, especially France and the UK, gradually followed. It can indeed be argued that the German example was at least as important as the role of the US and regional organisations in leading to intra-European trade liberalisation and the move to collective convertibility of European currencies in 1968.

This episode of unilateral, "example-setting" policy reform is of great relevance today. The last decade-and-a-half has witnessed a spreading process of unilateral policy reform, including trade liberalisation. Most commenta-

tors tend to view liberalisation in the international economy through the lens of inter-governmental negotiations and international organisations.

What gets left out of the picture is the recent surge of unilateral trade liberalisa-

## UK should be in on weak euro

From Lord Cobbold

Sir, There was a curious twist in Mr Major's advice to the new prime minister to seek a delay at Amsterdam in the implementation of the single currency. He argued that recent events in Germany and France meant that a 1999 euro would be weak, thus damaging British competitiveness. This, he hastened to add, was because sterling would not be a member and would strengthen, thus threatening our exports.

A weak euro vis à vis the dollar and the yen might, however, be just what is needed to revive employment in Europe and would not necessarily be inflationary. How many times have we listened to Tory ministers extolling the benefits of the 1992 devaluation and the somewhat unexpected lack of inflation that followed?

Surely, if there is to be a weak euro boosting global competitiveness of participating countries, the UK should be one of them. It would be hedged both ways: a weak euro leading to global competitiveness; a strong euro preserving current competitiveness within the single market. If, for lack of qualifiers for 1999, postponement becomes unavoidable, advantage should be taken to maintain technical preparations and shorten the transitional phase to 2002, which has always been the danger zone.

Finally, with the UK's financial market strengths, it is really out of bounds to contemplate a monetary union that starts with Britain and France (and others), with Germany joining later as soon as full effects of re-unification have worked through its economy?

Cobbold,  
Knebworth House,  
Hertfordshire SG3 6PY

## India must be included in summit

From Mr Adrian P. Hewitt

excluded from the least developed countries which will be allowed to receive special trade preferences blessed by the World Trade Organisation.

The government cannot maintain a policy and host a summit which fails to include India in the concept of "Asia-Europe", just as it makes no sense to have a development co-operation

policy committed to the elimination of poverty but which contrives to exclude the country which has more poor people than any other.

Adrian P. Hewitt,  
deputy director,  
Overseas Development  
Institute,  
Portland House,  
Stag Place,  
London SW1E 5DP, UK

## Clear that there is no windfall for BA

From Mr Robert Ayling

"The airports, particularly Heathrow, were in effect privatised on the basis that the ability to earn above average returns on assets should accrue to airlines operating in a competitive environment rather than to the shareholders of BA, which enjoys a substantial measure of monopoly power." The words which Mr Nellen omitted

are those in italics.  
The full quotation makes it clear that if anyone receives a "windfall" it is the passenger or shipper.

Robert Ayling,  
chief executive,  
British Airways,  
Speedbird House,  
Heathrow Airport (London),  
Hounslow TW6 2JA, UK

## The FT Interview · Lawrence Bossidy

## A contemporary veteran



Success relies on four processes, AlliedSignal's chairman tells Tony Jackson

**At 61, Mr Larry Bossidy represents veteran US management at its most fearlessly effective. Since he took over as boss of the diversified manufacturer AlliedSignal six years ago, its shares have outperformed the US market by a factor of two, and its market value has quintupled to \$21bn.**

Mr Bossidy spent the previous 34 years with another diversified US manufacturer, General Electric. As he remarks, GE has a high reputation for producing chief executive officers. This he attributes mainly to its habit of moving managers systematically around its various businesses, from automotive and medical to plastics and financial services.

"Managers need to get as wide an exposure to different industries as they can," he says. "You show me a person who's been historically in only one industry and I'll show you a more narrow-minded person: not because of intellect, just because of experience."

In an era of intense specialisation, this might seem slightly old-fashioned. So might AlliedSignal's quasi-conglomerate structure. The company falls into three divisions: automotive components, aerospace and a materials business ranging from high-performance alloys to engineering plastics.

The recent vogue for demerger might thus suggest the company as a natural breakup candidate. But as the share price shows, the structure plainly works. What is the secret?

Processes, Mr Bossidy says. "We have four processes which cut across everything: an intense people process, which obtains people, trains them, appraises them and promotes them; a good strategic planning process; a good operating plan or budget process; and a good cus-

tomers satisfaction process. Those are the same across the whole company."

Granted, he says, every company would claim to have something similar. "But the trick is how intense the processes are. What do they yield?"

The aim is to create a common set of values across the organisation. "You used to have conglomerates: send the cheque in every month, talk to you at the end of the year, give you a bonus or fire you. We don't do this. We're actively involved in these businesses, every day."

This emphatically does not mean second-guessing his managers. "I don't participate in price decisions, or factory scheduling. I am in position to do that. You have to pick the things you can influence, and get out of the way for the rest. I can influence people, because I know them. I can influence strategy, and the customer satisfaction process."

The recurring emphasis on strategy might also seem a touch old-fashioned. In Mr Bossidy's younger days, GE was a prime exponent of the method which gave strategy a bad name: the thick annual document, packed with figures and projections, which was then filed and forgotten.

There should still be a document, Mr Bossidy argues, but with a difference. "There's never been more

## HOW SMART IS YOUR COMPETITION?

Very smart, indeed, if they are reading the Financial Times on a daily basis.

Because there is no better way to keep abreast of important events that affect business.

Whether the subject is politics, economic and financial events or technological breakthroughs, the FT provides invaluable information and insight for better decision making.

Subscribe today. You will enjoy considerable savings on the regular newsstand price, and you will receive four weeks of the FT (24 issues) at no extra charge. More important, however, you will be prepared for the competition.



FINANCIAL TIMES

World Business Newspaper

BE SMART, SUBSCRIBE NOW.

Yes, I would like to subscribe to the Financial Times.

Please enter my subscription for 12 months at the following rate:

|         |            |         |           |             |             |          |            |             |           |
|---------|------------|---------|-----------|-------------|-------------|----------|------------|-------------|-----------|
| Austria | ATS 6,610  | Finland | FIM 2,800 | Italy       | ITL 640,000 | Norway   | NOK 3,590  | Sweden      | SEK 3,610 |
| Belgium | BEF 16,300 | France  | FRF 2,240 | Luxembourg  | LUF 16,300  | Portugal | PTE 71,000 | Switzerland | CHF 795   |
| Denmark | DKK 3,665  | Germany | DEM 850   | Netherlands | NLG 995     | Spain    | ESP 72,000 |             |           |

For rates and conditions in the following countries call Cyprus (02) 36 74 50, Greece (01) 991 93 28, Malta 66 44 88 and Turkey (212) 629 08 08.

\*Currency rates are only valid for the country in which they are quoted. Subscription prices are correct at time of going to press. Prices are exclusive of V.A.T. in all E.U. countries except France, Germany, Spain and Sweden.

SEND ME AN INVOICE.

NAME \_\_\_\_\_

COMPANY \_\_\_\_\_

DELIVERY ADDRESS \_\_\_\_\_

BILLING ADDRESS (IF DIFFERENT) \_\_\_\_\_

TELEPHONE \_\_\_\_\_

FINANCIAL TIMES VAT NUMBER: BE 111111111111

YOUR VAT NUMBER \_\_\_\_\_

DATE \_\_\_\_\_ SIGNATURE \_\_\_\_\_

NO ONE CAN BE ACCEPTED WITHOUT A SIGNATURE

PLEASE ALLOW UP TO 21 DAYS FOR YOUR ORDER TO START.

Kurtos 10, Subscription Department, Financial Times (Europe) OmbH, Nibelungenplatz 3, 60318 Frankfurt am Main, Germany. Telephone: +49 69 15 68 50. Fax: +49 69 396 44 83.

A PEARSON COMPANY

JULY 1997

## FINANCIAL TIMES

Number One Southwark Bridge, London SE1 9HL  
Tel: +44 171-873 3000 Telex: 922186 Fax: +44 171-407 5700

Monday June 9 1997

## A new map of Europe

It is still too soon to measure the effects of the twin earthquakes which hit France and Germany in the last fortnight: the Socialist election victory in France, and the German government's suicidal attempt to override the Bundesbank on an issue of financial credibility.

Both events signal an important political change, but only time will show how far-reaching that change is. Moreover, it is unclear whether the two events point in the same direction.

Certainly, they have both severely damaged the authority of the top political leaders in Europe's two leading powers: men who are, or were, the central figures in the present phase of European integration.

In Mr Jacques Chirac's case, the damage seems near-terminal. His ill-judged dissolution of parliament has reduced him, at a stroke, from all-powerful head of government to little more than a constitutional monarch. True, his predecessor showed in 1986-88, ironically at Mr Chirac's own expense, that this position can be exploited both to keep control of foreign policy and to lay traps for the government. But Mr Chirac is less well placed to do this than François Mitterrand was, not least because his self-inflicted wounds have largely destroyed his prestige even among his own supporters.

Mr Helmut Kohl, by contrast, remains head of government, facing an ill-edged opposition yet to choose its candidate against him in elections still over a year away. Is he fatally damaged by his blunder over the revaluation of the Bundesbank's gold reserves, as Mr John Major is now perceived to have been by

"Black Wednesday" in 1992? Perhaps, but his political obtuseness have been written many times before, only to be torn up again when he bounces back.

At first sight, the two events may both seem to point to a softer interpretation of the public sector deficit criterion for membership of the planned European monetary union (Emu). Barred from offsetting the increased value of Germany's gold reserves against this year's deficit, Mr Kohl and his finance minister, Mr Theo Waigel, will now find it almost impossible to hold the deficit to 3.0 per cent of gross domestic product, as promised. Meanwhile the new French government's programme also seems irreconcilable with the 3 per cent target, as does – at least for Italy – its demand that southern Europe be included in the first wave of Emu members.

But that demand is generally assumed to be more than the German public will swallow. Mr Kohl's problem is that, while his defeat may make it more necessary to relax the deficit criterion, it also makes it politically harder. German voters, never fully convinced that swapping the Deutsche mark for the euro is a good bargain, are now more suspicious than ever. Mr Waigel, especially, will have great problems with his Bavarian party base if he now abandons his previous insistence that "3.0 means 3.0".

It is getting hard to see how these contradictions can be resolved without postponing the deadline. Mr Kohl appears to think it morally impossible for Germany to propose that, but perhaps if France were to do so, he would gratefully accept.

## Bertie's turn

Mr Bertie Ahern, leader of Ireland's Fianna Fáil, appears to have done just enough in the Irish election to form the next government. But it was scarcely an enthusiastic endorsement from the electorate, and he will not have an easy time in office. The chances are that he will have to rely on the votes of a handful of unpredictable independents to have a majority.

At one level, the Irish voters seem to have reverted to their old divisions, returning to Fianna Fáil and the rival Fine Gael, the two hostile factions of the Irish civil war in 1921. They shunned the "new" ideology-based parties: Labour on the left, and the Progressive Democrats on the right. But some protest votes were cast for the independents, and the solitary Sinn Féin success to the north. Mr John Bruton, the outgoing Taoiseach, can console himself

that Fine Gael won more support than in the 1992 election, a small reward for its successful management of the Irish economy. Fianna Fáil improved, largely thanks to better management of its votes in the complex proportional representation system. But it failed to gain 40 per cent of the vote, the second worst result since the Irish state was founded.

Ideological consistency would argue for a grand coalition of Fianna Fáil and Fine Gael, both conservative parties whose differences are largely historical. It won't happen. Mr Ahern, for one, has dismissed the idea out of hand. He either has to woo Labour back into his camp, which seems rather unlikely after the bitter dissolution of their last coalition, or he has to win the support of the independents. The question is how high a price he must pay.

## Tory dilemma

In the immediate aftermath of their worst defeat since the 1830s, the UK's Conservatives have been in denial. All manner of explanations have been offered as to why their seemingly unbreakable bold on power snapped catastrophically. But, understandably perhaps, the party has yet to address the future, to map out the long and arduous route towards political recovery. That process should begin this week with the first ballot to choose a new leader.

There is something in most of the reasons advanced for the Conservatives' defeat at the hands of Mr Tony Blair's New Labour. After 18 years there was a powerful mood for change. The voters were appalled by allegations of sleaze (real and perceived). Mr John Major had traded national leadership for party management. Nationalism over Europe confirmed the impression that Tory MPs put ideological infighting before the public interest.

Most damning of all, though, was the electorate's conclusion that the government had lost all touch with their world. The bald rhetoric of choice and private provision ran directly counter to deep unease about education, health, welfare and crime. Mr Blair's promise of hard-edged Tory economics and compassionate social policy was an unassailable offer. Europe, the fatal obsession of Mr Major's government, hardly figured.

This is the analysis that the party's 164 MPs must take on board in the choice of new leader. A lurch to the right or to extreme Euroscepticism would simply confirm the electorate in its judgment. Nor, after Mr Blair's embrace of economic

## COMMENT &amp; ANALYSIS

# Extreme to mainstream

Emerging market debt has become fashionable as fund managers search for higher yields, say Richard Lapper and Edward Luce

**B**ack in the late 1980s, any broker suggesting that Brazil would have the gall to issue a \$3bn global bond or that anyone would be mad enough to buy it would have been laughed out of court. Since then, only Italy and the Canadian state of Ontario have issued global dollar bonds of \$3bn or again when he bounced back.

At first sight, the two events may both seem to point to a softer interpretation of the public sector deficit criterion for membership of the planned European monetary union (Emu). Barred from offsetting the increased value of Germany's gold reserves against this year's deficit, Mr Kohl and his finance minister, Mr Theo Waigel, will now find it almost impossible to hold the deficit to 3.0 per cent of gross domestic product, as promised. Meanwhile the new French government's programme also seems irreconcilable with the 3 per cent target, as does – at least for Italy – its demand that southern Europe be included in the first wave of Emu members.

But that demand is generally assumed to be more than the German public will swallow. Mr Kohl's problem is that, while his defeat may make it more necessary to relax the deficit criterion, it also makes it politically harder. German voters, never fully convinced that swapping the Deutsche mark for the euro is a good bargain, are now more suspicious than ever. Mr Waigel, especially, will have great problems with his Bavarian party base if he now abandons his previous insistence that "3.0 means 3.0".

It is getting hard to see how these contradictions can be resolved without postponing the deadline. Mr Kohl appears to think it morally impossible for Germany to propose that, but perhaps if France were to do so, he would gratefully accept.

Earlier this year, Brazil agreed its first syndicated loan since 1982, and some eastern European borrowers are now obtaining funds at only fractionally higher rates than the most solid western companies. Over the course of the past 18 months, pension funds and insurance companies have begun to buy bonds issued by governments and companies in the developing world.

The same people who a year or two ago were buying bonds issued by Toyota and General Electric are now buying paper issued by Moscow and St Petersburg," says Mr Mark Watson, head of syndicate at Salomon Brothers in London.

After Mexico's recovery from the peso crisis in late 1994, the volume of emerging market debt issuance has taken off. At the same time, the spreads – or risk premiums – paid on emerging market bonds has narrowed considerably, reflecting the strength of demand for Latin American and east European paper.

Mexico's quick action to end the crisis by stabilising the peso and stemming capital flight persuaded many US and European investors that it – and other Latin American countries – had reached a new level of maturity. The success of last week's issue by Brazil is the most recent, and perhaps the most dramatic, result so far of that change in investors' perception.

At first, their interest was largely confined to Brady bonds, the securities named after Mr Nicholas Brady, the former US Treasury secretary, which have been issued in exchange for the bad bank loans of the 1980s.

"Two years ago if you knew

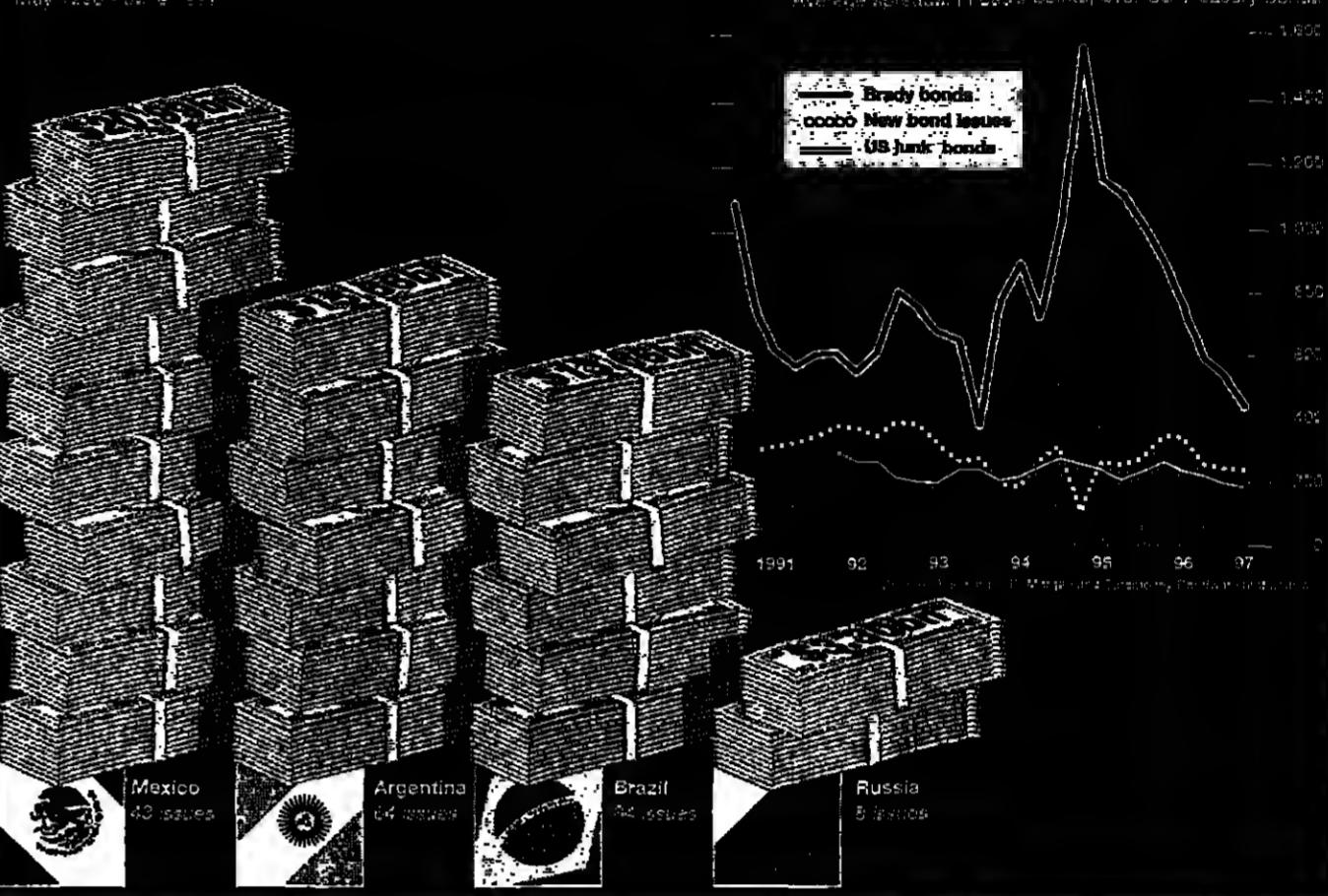
### The growing popularity of emerging market debt

Emerging market bond issues

May 1990 – June 1997

Spread on emerging market debt instruments and US junk bonds

Average spread, in basis points, over US Treasury bonds



Brady bonds, issued by 16 countries from Latin America and elsewhere in the developing world, are seen as particularly secure because principal repayments are guaranteed by US government bonds.

More recently, though, investors have been prepared to exchange Brady bonds for unsecured bonds. Six countries – Brazil, Mexico, the Philippines, Ecuador, Poland and Panama – have already swapped Brady bonds for more conventional bonds.

Dozens of new emerging market governments and companies, including Russia and several central Asian republics, are coming to the market, raising money generally at lower cost and for longer periods than they would have done a year ago. Last year, net issuance of international bonds – gross issuance less redemptions – from these developing country borrowers rose to \$3.2bn, compared with \$2.3bn in 1995 and \$3.9bn in 1994, according to figures published by the Bank for International Settlements.

Investors are casting the net ever wider. Plans by the Russian republic of Tatarstan, the former Soviet republic of Kirghizstan and the region of Nizhny Novgorod to place debut offerings in the next few weeks will add to the volume. Other planned issues included those from Vietnam, Côte d'Ivoire and possibly Serbia.

Local currency-denominated bills and bonds are becoming more popular. "Investors are going further afield. Six to nine months ago we would have said that Ukraine was extreme. Now it is mainstream," says Ms Elizabeth Morrissey, of Washington-based Kleinman International Consultants.

"Two years ago if you knew

that you were a hero," adds Mr Rick Haller, head of the emerging market division at Deutsche Morgan Grenfell, the European investment bank, and co-chair of the New York-based Emerging Markets Traders Association. "Now you have to make loans in Ukrainian hryvnia and Kazakhstani tenge if you want to be at the cutting edge."

According to the association, the volume of emerging market debt traded has increased by more than seven times since 1992. Last year alone, it more than doubled to \$5.27bn.

Dealing has become more sophisticated. Documentation is now standardised. Since the early 1990s, prices have been listed on screen and electronic trading has become possible. "It used to take days to do a deal. Now it takes a few seconds," says Mr Haller.

Several factors underpin this trend. Since the late 1980s, the economic fortunes of many developing countries have improved markedly. In Latin America, for example, the adoption of tighter fiscal and monetary policies has created greater economic stability, paving the way for relatively rapid growth after the difficulties of the 1980s.

Investors are casting the net ever wider. Plans by the Russian republic of Tatarstan, the former Soviet republic of Kirghizstan and the region of Nizhny Novgorod to place debut offerings in the next few weeks will add to the volume. Other planned issues included those from Vietnam, Côte d'Ivoire and possibly Serbia.

Local currency-denominated bills and bonds are becoming more popular. "Investors are going further afield. Six to nine months ago we would have said that Ukraine was extreme. Now it is mainstream," says Ms Elizabeth Morrissey, of Washington-based Kleinman International Consultants.

"Two years ago if you knew

Mr Wiltshire says that the formation of specialist indices – which reflect the performance of the biggest and most liquid emerging bond markets – have improved the transparency and legitimacy of the market for pension fund managers. This has helped emerging market debt become established as an entirely new asset class.

Mr Ali Naqvi, a fund manager with Citicorp Asset Management in New York, says some US pension funds are prepared to commit as much as 5 per cent of their assets to high-yielding debt. Normally, this would be a combination of emerging market debt and speculative-grade US corporate bonds, so-called "junk bonds".

The changing character of the investor base has been reflected in the prices of emerging market debt, which in the past have been closely correlated with the US Treasury market. Although prices drifted lower after the US Federal Reserve tightened monetary policy in March, the decline was far less marked than in 1994, the last time the Fed began to tighten monetary policy.

Rather than dumping all their holdings of emerging market bonds as they did in 1994, mainstream investors tended to move into shorter-term or more liquid emerging market assets, says Ms Ingrid Iversen, a New York-based debt strategist with UBS, the Swiss bank.

More liquid debt markets, such as Mexico and Argentina, were less badly affected than more illiquid ones such as Nigeria, Ecuador and Bulgaria, she says.

"After the Fed rate rise there was a flight to quality within emerging market debt," says Ms Iversen. "This is a sign of how sophisticated the market has become."

## O B S E R V E R

### Dialling a new number

■ It has to be said that America doesn't have much of a soft spot for UN agencies; the best efforts of secretary-general Kofi Annan to dole out US acquiescence about large international organisations with ill-defined functions haven't yet paid off.

But there could soon be a change in US attitudes when it comes to the Geneva-based International Telecommunications Union, whose Spanish secretary-general Felisa Turjeane retires next month.

Moves are afoot in corporate America and in Washington to give the ITU top job to an American who can take the organisation by the horns. A reformed ITU could be used to coax traditionally-minded governments into fulfilling the market-opening principles of the telecoms pact negotiated by the World Trade Organisation.

American telecoms lawyer David Levine has informally put forward his name, with a proposal to give the private sector a bigger role in the organisation. But it anyway misses a fundamental truth. The choice is between the indulgence of privatisation as a way of salvaging the ailing United Nations Industrial Development Organisation. It's as leader the party would send a powerful signal that it had opted for the second course.

Germany for financial rescue – after US and British withdrawal left it fighting for survival.

### The odd couple

■ Turkey's Islamist Prime Minister Necmettin Erbakan and deputy premier Tansu Ciller, one-time darling of the pro-Secularist elite, have made a fascinating couple even in the dullest moments – and there haven't been many of those during their year-old alliance. Ciller once held herself up as a secular bulwark against the forces of Erbakan's Welfare Party, while Erbakan used to rail publicly against ex-premier Ciller's allies; he still does so.

Most observers agree that their main common ground is a shared appetite for power, but sharing power is quite another matter. The pair have announced that grandfatherly demagogue Erbakan is to turn over the premiership to Ciller a year earlier than stipulated in last June's coalition deal.

Ciller's political tenacity is well-documented, and no-one discounts her determination to regain the premiership. But many recall a fracas in the 1980s when Erbakan was replaced as chairman of the Union of Chambers of Commerce and Industry. He refused to leave his

seat at the union's headquarters and had to be removed by security officers. Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

things should be sorted out within three months. The Dutch

Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

things should be sorted out within three months. The Dutch

Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

things should be sorted out within three months. The Dutch

Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

things should be sorted out within three months. The Dutch

Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

things should be sorted out within three months. The Dutch

Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

things should be sorted out within three months. The Dutch

Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

things should be sorted out within three months. The Dutch

Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

things should be sorted out within three months. The Dutch

Turks wonder if he will leave the prime minister's chair more willingly – he's already setting conditions for his departure.

In any case, President Suleyman Demirel must approve the planned premiership swap and the parliamentary opposition might object. This show's by no means over yet.

Monday June 9 1997

For a limited time  
over £1000 + VAT  
plus delivery direct to you.  
Radisson EDWARDIAN

## Japan's Dai-Ichi bank cancels top promotions

By William Dawkins in Tokyo

Japan's financial corruption scandals have claimed another two high-profile figures with Dai-Ichi Kangyo Bank, the country's second-largest commercial lender, cancelling the promotions of its prospective president and chairman.

They are Mr Ichiro Fujita, vice-president, who was due to take over as president at the annual shareholders' meeting at the end of this month, and Mr Yoshiharu Mani, another vice-president, who had been appointed chairman.

DKB's unusual move shows its desire to distance itself from any hint of further trouble. It comes amid fears that the two men could not escape blame in the widening scandal of illicit payments to extortionists, who buy small stakes in Japanese companies and demand bribes to avoid trouble at shareholder meetings.

Mr Fujita was thought vul-

nerable because he was once in charge of vetting applications for bank loans. DRB is believed to have lent Y20bn (\$175m) to the Koike brothers, which operated as a front company for illicit operations.

The speed with which DKB acted reflects the bank's anxiety over losing business because of the scandal. Its outstanding retail deposits fell Y15bn in May to Y13,300bn, according to bank officials quoted in the Japanese media.

It also shows the seriousness with which Japan's financial institutions view the attempt by Mr Ryutaro Hashimoto, the prime minister, to purge the financial system of corruption.

This latest scandal began in March when Nomura Securities, Japan's leading stockbroker, admitted illicit payments to a property company owned by the younger brother of Mr Ryotaro Koike, a well-known "sokaiya" corporate extortion-

ist. Mr Hideo Sakamaki, Nomura's former president, is under arrest and another former president and a chairman have been questioned.

DKB's former president and chairman later resigned, along with five other senior executives, to take responsibility for payments to the Koike brothers. Two current and two former DKB executives were arrested last week on suspicion of contravening securities laws and the commercial code in their dealings with the same sokaiya.

No senior managers were arrested in the last round of financial scandals, in 1991, another mark of this government's determination to cleanse the system.

New candidates as president and chairman of DKB have yet to be named, but front runners are Mr Hisashi Nakajima and Mr Fumio Akenuma, both relatively young managing directors.

**Israeli and Palestinian officials meet over peace talks**

By Mark Huband in Cairo

Israeli and Palestinian officials met last night for the first time in 11 weeks to discuss the resumption of peace talks, frozen since March when Israel began construction of a Jewish housing project in an Arab area of Jerusalem.

Only hours before the meeting in Cairo was due to begin, there were doubts whether the discussions would take place.

A Palestinian official said Israel had agreed to halt the Har Homa housing project in an Arab district of Jerusalem and to cleanse the system.

The renewed contact, aimed at overcoming hurdles preventing discussions on the final status of Jerusalem and other areas, is viewed as a sign of mutual willingness to resume direct talks. But neither side was in a position to make significant concessions which would allow a smooth resumption of talks.

"We are not willing to give settlement activity any kind of legitimacy. This is an issue that is not open to discussion," Mrs Hanan Ashrawi, education minister of the Palestinian Authority, said.

Last night's talks marked the latest stage in an Egyptian initiative to prevent the Middle East peace process stalling over this issue.

Egypt's President Hosni Mubarak met Mr Benjamin Netanyahu, the Israeli prime minister, in Egypt on May 27.

He told Mr Netanyahu that Mr Yasser Arafat, president of the Palestinian Authority, could not compromise on the settlement issue.

Mr Mubarak said after the May meeting that direct Israeli-Palestinian contacts would resume. Yesterday's talks in Cairo suggested the Egyptian initiative is moving forward.

However, Israel is using its contacts with Mr Mubarak to convince Palestinian leaders that they should lower their expectations of the duration of the talks and the outcome.

Mr Mubarak met Mr Arafat on Saturday.

"Israel hasn't changed its commitment to Har Homa," said Mr Dore Gold, adviser to Mr Netanyahu, yesterday.

The Egyptian initiative is viewed by Arab leaders as a sign that American efforts to resume direct Israeli-Palestinian contacts have stalled, owing to its loss of influence on both sides. However, Mr Osama Al-Baz, the adviser to Mr Mubarak who engineered the current series of meetings, returned from Washington on Saturday after briefing US officials.

## Italy offers \$5.8bn third tranche of Eni fuel shares

By Paul Beiffi in Milan

The Italian government yesterday launched its biggest privatisation this year with the sale of a third tranche of shares in Eni, the state-controlled oil and gas group, in a deal worth nearly L10,000bn (\$1.8bn).

The government said it might sell more shares if there were a surge in demand for the issue, but would retain control of the company, Italy's largest by market capitalisation.

The Treasury said it would sell 1m Eni shares, or 12.5 per cent of the company's equity, worth some L8,700bn at current market prices. However, an additional 150m shares will also be earmarked for sale if the issue is over-subscribed - a so-called "green-shoe" option.

The government is offering Italian and foreign institutions 300m shares with an additional

150m shares reserved for Canadian and US investors.

If, as expected, the entire green-shoe is exercised, the full flotation is expected to raise about L10,000bn and cut the state's stake from 69 per cent to 54.6 per cent. The government also indicated it could increase the offer further, but stressed its stake would stay above 51 per cent.

The government's decision to keep its holding above 51 per cent allows the centre-left administration of Mr Romano Prodi to head off political pressure to retain control of Eni, the world's seventh-largest publicly traded oil group.

However, Mr Mario Draghi, director-general of the Treasury, has not ruled out the possibility that the government may one day cut its stake to below 51 per cent. He suggested that the market would decide if a fourth

Eni tranche would eventually be sold. However, Eni cannot float any further shares for six months following this offer.

The government sold an initial 15 per cent stake in 1995, raising L6,300bn, and a 16 per cent stake last year which raised L4,800bn.

"We believe this offer will confirm the success of the previous two Eni sales," Mr Draghi said. He said the two global co-ordinators for the offer - the Italian IMI Credit Institute and Credit Suisse First Boston - had received indications of strong demand.

Eni shares closed on Friday at L8,739, 26 per cent above the L6,910 of last year's offer and 66 per cent higher than the 5,250 of the first sale in 1995.

The offer price will be the lower of the maximum price set on June 22, the day before the offer opens, and the market closing price on June 27.

## Banks move

### Dollar bond issuance

Continued from Page 1

requires a small working group, from project sponsorship and ultimately participation in the settlement bank," said Mr Stephen Thieke, head of risk at J.P. Morgan, who now chairs the G-20.

The move was described as a "positive step" by Mr Finn Otto Hansen, general manager for payments at Norway's Den Norske Bank and leader of the Group of Forty, a forum of medium-sized banks which banded together to ensure that their interests were not neglected.

Analysts, however, warned that the dramatic scale of new borrowing was unlikely to persist for more than a fortnight.

They pointed out that much of the demand was being fuelled by the high level of bond redemptions as old issues expired.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

Ha suggested that the market would decide if a fourth

will continue as portfolio investors switch their holdings out of the main European currencies. Concern about the weakness of the D-Mark and how sustainable the convergence process towards European monetary union is, has persuaded many fund managers to increase their exposure to the US dollar.

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

The market is taking the view that the US dollar is unlikely to depreciate against the yen or the D-Mark in the near future," said one fund manager.

"Investors are sitting on a lot of cash at the moment and they want to recycle it," said the fund manager. "With European interest rates at record lows they are unlikely to get the returns from D-Mark or French franc denominated bonds."

There are urgent calls for Germany to reform its outdated structures which tend to smother entrepreneurial spirit, writes Andrew Fisher

## Hope and anxiety for the future

When German bankers, businessmen and investors peer into the future, they see a prospect which both excites and unsettles them. When they look around at the present, they are often disturbed and frustrated.

The horizon is the euro, the planned single currency that will transform Europe's banking structure, capital markets and corporate environment in ways that are hard to envisage. Germany, with the most powerful economy in Europe, will play a vital role in European economic and monetary union.

But with the D-Mark - the prized symbol of the country's post-war economic success - about to be surrendered for the euro, Germany itself is experiencing acute difficulties. Qualifying for Emu, due to start in January 1999, is proving tough and Mr Theo Waigel, the finance minister, annoyed the Bundesbank with his plan to revalue the country's gold reserves to achieve this goal, though he quickly had to climb down.

Nor are Germany's problems only about meeting Emu's entry standards. As the country struggles with high unemployment, policy-makers find to invest abroad rather than at home and that economic recovery does not necessarily mean new jobs. Relatively recognising that the effect of high taxes, high social security costs and excessive bureaucracy is to depress incomes, deter investment and inhibit job creation, the government is trying to introduce reforms.

But progress is slow. The

word *Reformstau* (reform backlog) is commonly heard, particularly among those contrasting Germany's difficulties with the improved economic performance of other European countries such as the UK and the Netherlands or with the dynamism of the US and much of Asia. Thus the call by Mr Roman Herzog, Germany's respected president, for political action to reinvigorate the economy, encourage innovation and break through structural rigidities found a ready echo in the financial community.

Mr Rolf Breuer, the new chairman of Deutsche Bank, Germany's biggest bank, is among those concerned about the slow pace of change. "This *Reformstau* is a phenomenon which is not welcome at all. Politicians really should be encouraged to act, to move. I think they underestimate people's awareness of the need for restructuring. People have a better idea of what needs to be done than politicians think they do."

In the unfamiliar, wide-open environment of the euro, competition will be intensified across borders and economic failings exposed. For those companies and banks willing to embrace the opportunities - and that includes Germany's leading financial institutions and industrial corporations - the long-term rewards could be considerable.

But the initial impact on an unprepared economy could be painful. Hence the calls from economists, bankers and executives for Bonn to speed up the reform pro-

# German banking and finance



The Frankfurt skyline is dominated by Deutsche Bank, Dresdner Bank and Commerzbank, testaments to the power and might of the German banking system. Picture: Rolf Bräuer

cess. Mr Gerd Hänsler, a board member of Dresdner Bank and former Bundesbank director, says that when he visits the Asia-Pacific region, where he is responsible for operations, "I now come across a mixture of incomprehension and almost pity in view of Germany's stubborn adherence to outdated structures and highly subsidised jobs".

A large part of Germany's difficulties has to do with the perception of risk. In the US, for example, most jobs have been created in recent years by small companies, many of them nurtured by venture capital. In Germany, high costs and a high degree of bureaucracy tend to smother the entrepreneurial spirit. Venture capital still in its infancy and the stock market plays a far smaller role in relation to the size of

the economy than in the US, the UK or Japan.

There is certainly an awareness of the need to change. The government has passed laws to make the financial markets more flexible and attractive to investors and issuers, and more legislation is on the way. Deutsche Börse, which runs the Frankfurt securities exchanges, has set up the Neuer Markt (new market)

to encourage thrusting, young, technology-oriented companies to raise capital. Last year's successful Deutsche Telekom share issue also helped to promote equity awareness.

But broader economic reform still need to be pursued more energetically. One of the biggest contributions that politicians could make towards the creation of a

more vigorous, more risk-ori-

ented economy would be to lower taxes and cut away the thicket of allowances that distorts the system. The Christian Democrat-led government of Chancellor Helmut Kohl has launched a tax reform package, but its implementation depends on the agreement of the opposition Social Democrats.

The introduction of inde-

pendently-managed pension

funds along Anglo-Saxon

lines would also benefit the

economy by expanding the

equity market and thus making it easier for small compa-

nies to raise money and cre-

ate employment. That

connection is seen in Bonn,

but reforming the overbur-

den state system is also

taking time and is politically

sensitive.

Mr Johann Wilhelm Gad-

dum, deputy president of the

Bundesbank, notes that it is

not easy for politicians to

change the consensual

habits developed over

decades of post-war

prosperity. "The economic

environment in which they

operate has altered," he

says. The market is now the

transmitter of risk capital

between investors and indus-

try. "This is something that

has to be realised."

The primacy of the mar-

ket, allied to the competitive

forces of globalisation, is

also forcing changes on the

German financial commu-

nity. As more companies,

especially big international

corporations, turn to the

securities market for their

capital-raising needs, banks

find that their traditional

lending role is being eroded.

The shaky state of the Ger-

man economy has also added

to the volume of non-per-

forming company loans.

Against this uncertain

background, attention is

focused increasingly on the

opportunities of the single

currency, in commercial and

investment banking. Once

the euro displaces the cur-

rencies of Germany, France

and other Emu members,

Europe's banking structure,

capital markets and business

environment will never be

the same again.

At this stage, the ambitious

Emu project still has

some hurdles to overcome

before the euro can take its

place among the world's cur-

rencies. Although the

detailed preparatory work

for the planned European

central bank, to be located in

Frankfurt, is well under

way, political uncertainties

remain. Many citizens are

highly sceptical about the

whole undertaking.

But the general feeling

### IN THIS SURVEY

|                     |           |
|---------------------|-----------|
| • Emu               | Page 2    |
| • Emst-Moritz Lipp  | Page 2    |
| • Capital markets   | Page 3    |
| • Public finance    | Page 3    |
| • Johann Gaddum     | Page 3    |
| • Banks             | Page 4    |
| • MobilCom          | Page 4    |
| • Small companies   | Page 4    |
| • Investments funds | Page 5    |
| • Robert Kosher     | Page 5    |
| • Eastern Europe    | Page 6    |
| • Private banks     | Page 6    |
| • Credit cards      | Page 6    |
| Production editor   | Roy Terry |

among bankers, business- men, investors and other financial market participants - regardless of whether or not they approve - is that the euro is on its way. If anything, the embarrassing manoeuvres being indulged in by Germany to help it meet the Emu criteria have confirmed this impression. While the move to revalue the Bundesbank's gold reserves hardly increases confidence about Emu's future stability, it is also taken as proof that politicians are determined there should be no delay.

On that basis, there is a determination to make sure that Germany's financial system benefits from the euro. Efforts are under way to strengthen the domestic capital market, of which Frankfurt is the predominant centre. This means competing more effectively with Paris in bond issues and debt management, especially since Germany will no longer have the D-Mark to set it apart. With all new bonds to be issued in euros from 1999, the race will be on to see which country emerges with the benchmark government issue.

Thus the next few years should certainly prove lively on the German and wider European financial scene. But they will not be easy. The single currency will bring about huge changes in business and investment practices. Big banks and companies are spending heavily to prepare for these as they contemplate the future with much hope and some anxiety.

## Vereinsbank Corporate Finance

**VEREINSBANK JULY 1996**  
Acquisition & Leverage Finance  
**Landal** Landal GreenParks Holding B.V.  
Institutional Buy-Out  
NLG 250,000,000  
Sealor Sevred Facilities  
have been structured and arranged and  
NLG 70,000,000  
Mezzanine Facilities  
have been co-arranged by  
Bayerische Vereinsbank.  
The investor group has been led by  
Charterhouse Development Capital Ltd.  
and the Indofin Group.

**VEREINSBANK DECEMBER 1996**  
Going Public  
**RINOL**  
Initial Public Offering of  
2,200,000 Ordinary Shares  
Lead Manager  
Vereinsbank

**VEREINSBANK OCTOBER 1996**  
**ODS**  
R. Oldenbourg GmbH & Co. KG, Munich  
and  
R. Oldenbourg Graphische Betriebe GmbH,  
Kirchheim  
have sold a majority interest in  
ODS R. Oldenbourg Datensysteme GmbH & Co. KG,  
Munich  
to  
Lands & Gyr / Elektrowatt-Group,  
Zug/Zürich.  
We advised Oldenbourg on this transaction.

**VEREINSBANK DECEMBER 1996**  
Acquisition & Leverage Finance  
**Hofmann-Müller - Group**  
Leveraged Buy-Out  
The senior debt has been arranged by  
Bayerische Vereinsbank.  
The investor group has been advised by  
Schroder Ventures.

**VEREINSBANK FEBRUARY 1997**  
Acquisition & Leverage Finance  
**elexis** Holding GmbH  
Institutional Buy-Out  
Dkr 28,000,000  
Stand-by Facility  
has been structured and arranged by  
Bayerische Vereinsbank.  
Equity for the transaction was arranged and  
provided by  
Doughty Hanson & Co.

**VEREINSBANK OCTOBER 1996**  
Going Public  
**bertrandt**  
Initial Public Offering of  
900,000 Ordinary Shares  
Lead Manager  
Vereinsbank

**VEREINSBANK NOVEMBER 1996**  
**SIUFLEX** GmbH  
The shareholders of  
Siuflex GmbH Acoustics & Recycling,  
Schleiden-Bensberg  
have sold a majority interest to  
Janus GmbH, Pforzheim  
a wholly owned subsidiary of  
Janus Incorporated,  
Milwaukee, Wisconsin.  
We initiated and facilitated this transaction.

**VEREINSBANK DECEMBER 1996**  
Acquisition & Leverage Finance  
**techem** Techem AG  
Leveraged Buy-Out of a majority stake  
The acquisition finance has been supported by  
Bayerische Vereinsbank.  
The investor group has been led by  
BC Partners Funds.

For further information please contact:

Karl Ralf Jung, Telephone 0049-89-378-29768

Ronald Seilheimer, Telephone 0049-89-378-27609

## 2 GERMAN BANKING AND FINANCE

PREPARATIONS FOR EMU • by Andrew Fisher

# Friendly persuasion for the euro sceptics

Banks are doing their utmost to inform customers about the need to prepare properly

Banks are in the front line when it comes to preparing for the single currency. Every aspect of their operations has to take account of the euro from the first day, regardless of which countries join and whether European monetary union starts on time in 1999.

"Who it comes, we shall be ready," says Mr Josef Ackermann, a director of Deutsche Bank, Germany's biggest bank. "Our preparations have been intensified in 1997."

Having initially put the cost of preparing for Euro at DM250m, it now expects to invest up to DM400m, mainly because it underestimated

training and communication costs.

Other banks are also spending heavily. In addition, they are doing their utmost to inform business customers about the need to make preparations or at least be aware of Euro's implications.

Big companies such as Siemens and Daimler-Benz are well advanced in their preparatory work, seeing the euro as a big business opportunity. But many smaller and medium-sized companies, especially those tied to the domestic market, are lagging well behind.

Germany's myriad local savings banks and co-operative banks are also working hard ahead of Euro. There are 624 savings banks with 19,000 branches and 280,000 employees. The savings bank movement is spending about DM1bn to equip staff to deal with sceptical customers —

on the assumption that each client will want 15 minutes of advice.

"All our staff who deal with customers will need to be able to answer any general questions about the euro," says Mr Hans-Michael Heitmüller, a director of the German savings bank association. Overcoming scepticism about the single currency — especially in a country where the D-Mark represents economic strength and stability — will be no easy task.

The government, now struggling to reach the Maastricht budget and debt criteria for Euro, has left much of the task of persuading people to accept the euro to the banks. Yet while the government's own difficulties — and its tardiness in pushing through much-needed economic reforms — are hardly likely to dispel citizens' scepticism, most

seem resigned to the idea of the euro.

Banks, however, have to forge ahead with their preparations whatever people think. From day one of Euro, all German transactions will have to be expressed in both euros and D-Marks, at least until the new coins and notes are introduced in 2002. While most big customers will probably use the euro as an accountancy unit immediately, smaller businesses are likely to continue in D-Marks for the first two or three years.

Retail customers will clearly prefer to stick to D-Marks until 2002, but those who deal in securities — which will be denominated in euros — will also need separate euro accounts. But regardless of whether payments or receipts are in euros or D-Marks, they will be expressed in euros as they flow between accounts.

Banks will have to be ready to meet this challenge.

Mr Ernst-Moritz Lipp, a director of Dresdner Bank, Germany's second biggest bank, says that if all its euro preparatory work were compressed into one year, the full-time services of 300 people would be required.

But banks, especially those with big international operations, are peering beyond the practical aspects of Euro into a future where they see new strategic opportunities. This applies across the financial services spectrum.

Mr Dietmar Breipohl, finance director of Allianz, Germany's biggest insurance group, believes Euro is likely to speed up the restructuring of the financial services and insurance sector in Europe. "The euro will make it easier to compare prices across European financial products and firms lead to more cross-

border business and increased competition."

But the single currency will not be the dominant force in the competitive process. With banks and insurance companies now competing increasingly against each other for clients, there will be increasing concentration across the financial services sector.

"The concentration process in Europe has only just begun," Mr Breipohl says. "In Japan, there are just 20 insurance companies for a population of 150m. If you extrapolate this to Europe, there should be no more than 50 companies. Currently, there are still more than 5,000." Against this background, only niche specialists and financially powerful international insurance concerns would survive in Europe in the long term.

Deutsche Bank's Mr Ackermann agrees that Euro will help speed the process of change in financial and industrial markets. "I'm pretty sure the domestic restructuring in each market will be accentuated. We will see more mergers and acquisitions in each market."

He expects direct banking operations to grow as more customers combine the convenience of computers and telephones with the cross-border investment and business possibilities opened up by the euro. And he foresees greater cost competition in retail banking products. "The most efficient banks, with the most efficient communications channels and the most efficient technology, will be the winners."

National differences, such as in tax and legal systems, will remain for some time. The single currency will not change everything, although it will impinge on practically every aspect of people's lives.

## PROFILE

## Man with a mission to change

Dresdner aims to benefit from opportunities in financial and industrial markets

Preparing for the euro will be costly for Dresdner Bank, as it will be for its big German rivals. Dresdner will spend up to DM200m, about two-thirds before 1999 — the year European monetary union is due to start — and the rest by 2002, when coins and notes are introduced.

Most of the money will go on technical preparation and staff training. But Dresdner, Germany's second biggest bank, is thinking beyond the practical need to be ready for the single currency. Its deeper aim is strategic — to benefit from the opportunities the euro will bring in financial and

industrial markets and fashion new strategies for dealing with investors and customers.

"We want to use the impact of the integration through the euro to push forward changes in the bank," says Mr Ernst-Moritz Lipp, Dresdner's director responsible for Euro preparations. The bank is concentrating on two main strategic areas: where the euro will transform the market for issuing shares and bonds as well as their trading and custody — and advisory services in big industrial sectors.

"We want our employees in wholesale and investment banking to become specialist advisers," he says. Dresdner aims to help big corporate customers meet the post-Euro challenges of intensified competition, deregulation and

He expects more companies to tap this wider market to raise money through bond issues rather than borrowing money in

privatisation in such sectors as telecommunications, motors, engineering, energy, chemicals and pharmaceuticals and healthcare.

These are areas where Dresdner has strong client relationships in Germany and experts in London, where it boosted its investment banking side by purchasing Kleinwort Benson. Mr Lipp says that by combining its industrial links with investment banking skills the bank intends "to advise, finance and earn money".

He foresees dramatic changes on the securities side. "I believe the European capital market will be really revolutionised in coming years."

He expects more companies to tap this wider market to raise money through bond issues rather than borrowing money in

the traditional way. Thus both banks and companies will have to be well prepared. Corporate financial statements will have to be clearer and more comprehensive if big institutional investors are to be tempted to buy their new bond issues. Credit analysis will also have to be amplified.

Many companies with credit ratings below triple or double A are likely to raise money in the broader euro capital market. Banks arranging trading in and marketing such issues will have to have good risk analysis. To augment the work of rating agencies, banks will need a host of new credit analysts. "The market for credit analysis will boom."

The bank also sees opportunities on the custody side, in looking after securities held by large

institutions. "Dresdner intends to be a euro bond bank and a euro custodian bank." All big banks face the question of whether they want to specialise in these areas or stay away. "The decision has to be made in 1997 or it will be too late."

Thus Dresdner is building up its European custody expertise in France, the Netherlands and elsewhere. Mr Lipp expects custody business in Europe to remain largely national because of different laws and systems. The bank is also anticipating the need for big US-based global custodian banks to work with sub-custodians in the euro zone.

Risk analysis will have to be strengthened to cope with the range of government, regional and local authority bond issues in euros. There will be no single benchmark issuer like

government issuers." So we will need to develop good cross-border, Euro-wide risk analysis."

Set against the strategic thrust of Dresdner's Euro effort, the practical issues seem straightforward. But the detail is complex, requiring the full-time efforts of about 130 people in and outside the bank on the technical preparations. Big transactions between Euro central banks, other banks, large companies and institutions will be in euro accountancy units from the start. But smaller payments will be mainly in national currencies at first.

Handling all dealings in euros will require enormous preparation. Every transaction will have to be expressed in the new currency, even if the money is paid and received in D-Marks until 2002. "The euro pipeline [between accounts] has to be there for all customers," Mr Lipp says. Some clients, especially corporate, will

want both D-Mark and euro accounts. Conversion between currencies will be done by the banks.

Big payments will mostly be handled by Target, the Euro real-time payments system. But small ones will still be carried out by national systems. These are not compatible, however — you can't make an automatic transfer today from Frankfurt to Bordeaux". So Dresdner will work with foreign bank partners to develop an efficient joint low-cost cross-border payments system. Other bank groupings are doing the same.

The customer may not notice, but the euro is causing feverish behind-the-scenes activity across the banking spectrum. Assuming Euro starts on time, Dresdner intends to be ready around mid-1998 to give itself a few months' practice.

Andrew Fisher

**"The remedy lies in breaking the vicious circle and restoring the confidence of the European people in the economic future of their own countries and of Europe as a whole."**

George C. Marshall

Vor 50 Jahren hatte George C. Marshall ein großes Ziel. Er wollte die Unabhängigkeit Deutschlands und Europas. Seine Ideen sind wahr geworden. Dank des Marshallplans und seiner Finanzierungsprogramme konnten und können wir als Hauptleihinstitut der Marshallplan-Mittel dafür sorgen, daß Visionen Wirklichkeit werden. Danke.

**KfW** Kreditanstalt für Wiederaufbau

IN TODAY'S  
INTERNATIONAL  
CAPITAL  
MARKETS, THERE'S  
NO SUBSTITUTE  
FOR QUALITY — AND  
GOOD TIMING.



These are just two reasons why Landesbank Rheinland-Pfalz is going from strength to strength in international markets. One of Germany's prominent public-sector financial institutions, Landesbank Rheinland-Pfalz is a universal bank with total assets of some DM 80 billion and core businesses in long-term lending and real estate financing. To refinance its specialized loan portfolios, the Bank has become a regular issuer in international debt markets — raising funds in various major currencies. An active investor itself, Landesbank Rheinland-Pfalz is also a respected address for institutional investors who value the Bank's expertise in asset management.

For a solid banking partner committed to quality and good timing in international capital markets, consider Landesbank Rheinland-Pfalz.

LANDESBANK RHEINLAND-PFALZ

CAPITAL MARKETS • by Andrew Fisher

## Sights are set on overtaking Paris

**Frankfurt aims to establish close connections with the European central bank**

The relentless approach of European monetary union has focused attention on the strengths and weaknesses of the German capital market, which is heavily concentrated on Frankfurt.

Mr Rolf Breuer, the new chairman of Deutsche Bank, speaks of a "Big Bang" effect which Germany must exploit to the utmost by being ready with the right financial products and trading systems.

At Bayerische Vereinsbank a recent study on the impact of the euro on Europe's capital markets was subtitled "From the provincial to the world league". It described the immense opportunities Euro would bring, but also highlighted the "creative destruction" that would ensue as existing structures were overturned.

Mr Gerd Häusler, a director of Dresdner Bank and former senior official of the Bundesbank, homed in on the upheaval which the euro would cause in a speech titled "European monetary union - curse or blessing for

the financial markets?"

The big question is not whether Frankfurt can catch up with London. Few bankers see that possibility, since London is far ahead in financial skills and global business volume.

Even if the UK does not join Euro, London will remain a superior centre, although Mr Breuer thinks the City will be at a disadvantage by not being close to the European central bank which will set Euro's monetary policy.

"We in Frankfurt have decided to play on that - in a friendly competitive manner," he says. "We will try to establish close connections with the decision-makers in the ECB and thus cultivate a better market feeling for the decisions to be made."

What really concerns Mr Breuer and others is that Frankfurt should be able to match or exceed Paris. To ensure German markets are in fit shape for Euro, a campaign has been launched to overcome their "image problem". A financial market association was set up with Mr Breuer - also head of the supervisory board of Deutsche Börse, which runs the Frankfurt securities and futures exchanges - as a key member.

That is the way I feel

in spite of his concern that Germany - which will lose the advantage of having the stable D-Mark as its currency - has not put its arguments across strongly enough, Mr Breuer sees opportunities. He feels the German fixed interest market in bonds and other instruments are "up to standard and competitive", although there is room for improvement.

He believes Frankfurt's electronic trading systems also give it a competitive edge. The DTB, the futures and options exchange, has more than half of its members outside Germany, linked electronically. The stock exchange is also forging ahead with its Xetra project to extend electronic trading.

Mr Breuer expects traditional floor trading to disappear with the coming of the euro. Big investors will drive markets along the electronic route, which he says Frankfurt has pursued more energetically than France. "For a euro capital market, with no borders, no barriers, no financial location in physical form and which lives from institutional money inside and outside Euro, everything is open for remote membership. That is the way I feel

markets will function in future."

In spite of its push into new technology, however, Germany has much catching up to do on the stock market side. "Where we still lag behind, not only vis-à-vis London, but also relative to our Continental competitors, is in the equity market."

But he is happy with government reforms to make German capital markets more flexible and transparent. The main drawbacks are cultural more than structural. Many German investors and companies are still not equity- or risk-oriented enough.

The shrill discussion over the attempt by Krupp/Hoesch to bid for Thyssen, its larger steel and engineering rival, showed that hostile takeovers still arouse strong emotions in Germany.

The banks which backed the Krupp offer, including Deutsche and Dresdner, came under heavy attack from trade unions over possible job cuts. Some politicians also criticised the banks' role. "It was not a very educated discussion," says Mr Breuer. But he thinks the episode has advanced what he calls the "takeover debate".

"The world will not be the same after Krupp/Thyssen," he says. "Maybe it is even helpful in hindsight - although I could easily have done without it - that this topic is now on the table."

One development that does gratify him is the success of last year's DM20bn share issue by Deutsche Telekom. He pinned strong hopes on its potential for joining Germans out of their safety-first investment attitudes.

The positive thing is that the majority of original individual subscribers to Telekom still remain shareholders. In previous years, they would have sold after the first couple of days."

Another requirement for expanding the role of equities in Germany, where stock market capitalisation is low in relation to the size of the economy, is the introduction of pension funds along Anglo-Saxon lines. Tax laws put these at a disadvantage against in-company schemes.

But here too, the unflappable Mr Breuer is optimistic: "I think politicians have accepted that reforms have to come." For the moment, though, the emphasis is more on salvaging the creaking pay-as-you-go state system than on creating the

right conditions for independently-managed pension funds. These would help people earn adequate returns to enhance retirement income.

He does not expect pension funds to be given the green light until after the general election in October next year, because the cash-strapped government has other priorities.

Since pension funds are heavy investors in equities, the stock market would gain a huge impetus from their introduction. "We still lack domestic institutional investors of size, apart from the mutual funds," Mr Breuer says. German insurance companies generally do not invest in shares up to the limits allowed them.

Looking beyond Germany, bankers are concerned about how effectively Frankfurt will be able to compete with Paris once the euro sweeps away currency differences. France has consistently developed its financial centre after the example of New York and created modern instruments," says Mr Häusler. Germany has striven to catch up, notably by introducing short-term government paper and resuming 30-year bonds, but France still has an advantage, he adds.

Mr Johann Wilhelm Gaddum, deputy president of the Bundesbank, thinks German investors and companies should become more risk-minded. But he does not follow those who want to ape Anglo-Saxon practices to the full.

"I think we have to find a way that doesn't involve throwing overboard the traditions of the German system. You can have a corporate culture that combines the old with the new."

What is increasingly clear in these days of globalisation is that the old "house bank" links between companies and banks are dwindling, especially at big concerns.

"For a long time, German corporate culture was very much concentrated towards companies being shut off from the market rather than opening up to it," says Mr Gaddum, who is responsible for capital and money market issues.

"The German banking system is very efficient and it also provides a comprehensive service that means companies are not forced to go to the market." Companies have found a ready source of loans and advice at their banks. But this is changing. Returns on traditional bank lending and deposit business have been shrinking, while more and more companies are finding it cheaper to raise money from the capital market.

The process is faltering in Germany, though. "We need more risk-bearing capital in our economy, especially since

investments are likely to be more rather than less risky as they are linked with technological innovations".

With product and innovation cycles speeding up, today's successes can become tomorrow's failures. So the traditional German route of debt financing is no longer the answer. "There is no sense in accusing the banks of being risk-shy," Mr Gaddum adds. Banks are not there to handle these risks. "This has to be understood better."

This applies especially to politicians who need to be aware that risk premiums on capital have to be high enough to encourage new investments.

While many politicians, from Chancellor Helmut Kohl downwards, have called on Germans to be less risk-averse and more entrepreneurial,

considerable obstacles remain. Taxes are high,

bureaucracy can be stifling and social security costs are burdensome for employers.

Mr Gaddum does not criticise the government but says rethinking is necessary. "One has to understand that politicians cannot react that quickly to changing conditions. The economic environment in which they operate has altered."

While the success of last year's Deutsche Telekom share issue has alerted many to the attractions of equities, there is still a long way to go before the stock market's role in the economy matches those in the UK, US, Japan and other countries.

Efforts are being made to broaden the range of quoted companies, an important initiative being the Neuer Markt set up by Deutsche Börse, which runs the Frankfurt



Johann Gaddum: banking system is very efficient

securities exchanges. This market is aimed at fast-growing, dynamic and technology-oriented companies.

As the euro approaches, it will be vital for German banks, companies and investors to be fully prepared for the unification of capital markets that a single currency will bring, about. The same applies to bond and money markets. "There will be competition between financial centres and between issuers of securities," Mr Gaddum says.

Because the Maastricht treaty excludes any bank by the European central bank - which will set monetary policy for the euro countries - of governments which run into budget problems, analysts and investors will have to look hard at the relative merits of national bond issues. "This will lead to differing ratings of loans, even in a unified capital market. This could be one of the most interesting developments in the market."

Andrew Fisher

PUBLIC FINANCES • by Peter Norman

## Problems mount for embattled Waigel

**Challenges include unemployment, low revenues and opposition to tax reforms**

At the end of last month, Mr Theo Waigel became the longest serving finance minister in post-war Germany.

There must be times when, surveying the nation's finances, this naturally robust and generally good-humoured politician wishes he had sought a less challenging position long ago.

Mr Waigel faces a host of problems - including record unemployment, lower than predicted tax revenues and entrenched opposition in the Bundestag, the second chamber of the Bonn parliament, that make controlling the federal deficit and pushing through ambitious plans for tax reform a daunting task.

No sooner is one crisis solved than another surfaces.

In mid-May, Mr Waigel appeared to have devised a solution to the problem of bringing this year's public deficit below the 3 per cent of gross domestic product prescribed by the Maastricht Treaty, by revaluing the Bundesbank's gold and currency reserves. The surplus that would accrue from the

roughly DM60bn difference between the low book value of the reserves and their market value would be transferred in stages to a special "redemption fund for historic burdens", which would offset deficits elsewhere in the public finances.

This move, however, earned a stinging rebuke from the Bundesbank that forced Mr Waigel to abandon all hope of using proceeds from the revaluation of the reserves this year.

While the press and public were absorbing the implications of the row between finance ministry and central bank, Mr Waigel and high level colleagues in Chancellor Helmut Kohl's often quarrelsome coalition were struggling to tackle the next problem: that of filling a yawning gap in this year's federal budget and the draft for 1998, which is due for review by the cabinet in July.

The Bonn coalition is faced with financial imperfections that are difficult - if not impossible - to reconcile. It must meet the Maastricht criteria limiting the public deficit to 3 per cent of GDP on a sustainable basis - in the years ahead as well as in 1997, the crucial year for securing membership of the planned single

currency from 1999. It should not allow the federal deficit to exceed the amount budgeted to cover investment. In compliance with this "golden rule", laid down in the constitution, the 1997 budget envisaged investment of DM60bn this year and about DM60bn in subsequent years. The deficit, fixed late last year at DM63.5bn for 1997, appeared

to boost tax revenues. In May, the finance ministry's expert committee, which produces tax revenue estimates twice a year, forecast a DM15bn shortfall in revenues for the federal, state and local authorities in 1997 and a total DM18.5bn revenue gap between now and 2001. The shortfall is structural. It partly reflects the export-led nature of Germany's eco-

many, by 2 percentage points to 5.5 per cent at the start of next year.

A wide reform of the income and corporation tax systems that aims to cut tax rates radically while pruning tax privileges is planned from 1999.

However, such reforms cost money. Long before it was presented with the recent forecasts of reduced tax revenues to 2001, the government agreed that its big tax reform should include a net easing of the overall tax burden of about DM30bn.

Unfortunately, the planned broadening of the tax base will still leave an additional gap of at least DM15bn to be financed. A separate restructuring of the pension system is likely to produce a similar hole. This has meant that while planning income tax reform with net cuts, most of the public discussion on the reform has centred on the likely indirect tax increases that will be necessary to make the sums add up.

The 1998 tax reform is bound to be amended as it passes the Bundestag, where opposition Social Democrats presented plans to cut the hated "solidarity surcharge", imposed on income and corporation tax bills to help finance eastern Ger-

nomic recovery and partly the inefficiency of the present tax system.

With its high tax rates and narrow tax base, Germany has unwittingly encouraged individuals and corporations to avoid tax.

The pressures include paying for higher than expected unemployment, which is likely to average about 4.3m this year compared with a forecast 4.1m in January and 3.9m when the 1997 budget was finalised last year. Mr Waigel has warned that the cost of higher unemployment could be up to DM20bn above budget this year.

At the same time, economic growth is failing to help finance eastern Ger-

many. The circumstances, it is not surprising that Mr Waigel has rediscovered privatisation as a way of plugging budget gaps.

In the circumstances, it is not surprising that Mr Waigel has rediscovered privatisation as a way of plugging budget gaps.

The 1998 tax reform is bound to be amended as it passes the Bundestag, where opposition Social Democrats presented plans to cut the hated "solidarity surcharge", imposed on income and corporation tax bills to help finance eastern Ger-

nomic recovery and partly the inefficiency of the present tax system.

With its high tax rates and narrow tax base, Germany has unwittingly encouraged individuals and corporations to avoid tax.

The pressures include paying for higher than expected unemployment, which is likely to average about 4.3m this year compared with a forecast 4.1m in January and 3.9m when the 1997 budget was finalised last year. Mr Waigel has warned that the cost of higher unemployment could be up to DM20bn above budget this year.

At the same time, economic growth is failing to help finance eastern Ger-

many. The circumstances, it is not surprising that Mr Waigel has rediscovered privatisation as a way of plugging budget gaps.

The 1998 tax reform is bound to be amended as it passes the Bundestag, where opposition Social Democrats presented plans to cut the hated "solidarity surcharge", imposed on income and corporation tax bills to help finance eastern Ger-

**NORD/LB'S CAPACITY**  
**WHATEVER MAJOR PROJECT YOU ARE PLANNING, WE WILL FINANCE IT:**  
**THE NORD/LB CORPORATE CLIENT ADVISORY SERVICE.**



Major projects demand exceptional strength. As one of the major German banks with an international reputation, NORD/LB has considerable financial power and a wealth of experience. Our in-depth knowledge of corporate finance allows us to get to the crux of the matter clearly and explicitly: a direct approach which reflects the NORD/LB's capacity. A good foundation for bringing your major plans to fruition.

### OUR OFFER:

If you are planning a major project, call us on: +49/511/361-4884

<http://www.nordlb.de>

**NORD/LB**

NORD DEUTSCHE LANDESBANK  
GIROZENTRALE

Hannover · Braunschweig · Magdeburg · Schwerin  
Hamburg · Frankfurt · Zürich · Luxemburg  
London · New York · Singapur

## 4 GERMAN BANKING AND FINANCE

BANKS • by Andrew Fisher

# Shake-up fever played down

Hostile takeovers would be costly and may risk alienating valuable staff

Germany's big banks are set for a restructuring wave that could change the face of financial services in Europe's biggest economy. Or are they?

Ever since Deutsche Bank, the country's biggest bank, set the stock market alight last July with the news that it had acquired a 5.21 per cent stake in Bayerische Vereinsbank, speculation about a shake-up in Germany's over-branched banking sector has been rife. Previously sluggish bank shares have soared - as has the stock market in general - and all manner of possible merger and takeover permutations have been mooted.

Top German bankers were bombarded with questions about the topic at their annual press conferences this spring. They answered circumspectly, refusing to be drawn on what they thought might happen.

Some made clear, however, that they would not simply sit by and watch the sector being restructured without taking an active part. Others pointed out that hostile takeovers in banking would be next to impossible, because they would be too costly and would risk alienating valuable staff, who might then leave.

The big Allianz insurance group is likely to play a crucial role in any restructuring. It owns 22 per cent of both Dresdner Bank, the second biggest bank, and Bayerische Hypotheken- und Wechsel-Bank (Hypo-Bank), and has a holding in the smaller BHF-Bank, which is occasionally the subject of takeover rumours.

So far, however, the ownership of the big banks is the same as it was before Deutsche Bank, based in Ger-

many's financial capital of Frankfurt, bought into Munich-based Vereinsbank. And while some bankers and many analysts are convinced that big changes are in the offing, others expect no movement - for the time being at least.

Mr Hilmar Kopper, who has just bowed out as chairman of Deutsche Bank and now heads its supervisory board, believes that the status quo among the biggest banks will be maintained for a while. "I wonder that the unleashed such speculation," he says of the Vereinsbank holding.

Instead of changes among the top five German private sector banks - including Commerzbank, in which there are no sizeable outside stakes - he expects consolidation to come first among the myriad public savings banks and the co-operative banks. He believes any changes at national level are anyway likely to be far outweighed by the eventual impact of the single currency on European banking structures and practices.

The consolidation process is already well under way in Germany, as savings banks merge. But there are still more than 500 with about 18,000 branches. "Our banking sector has a different structure than in any other industrial country," Mr Kopp-

er says. "We can only talk about structural changes - I don't know when this is likely to happen, I am talking purely theoretically - when people's powers of imagination reach far enough to allow German public sector banks to combine or link up with co-operative or private sector banks." So far, "the imagination is lacking for this now".

He points out that Germany's biggest banks - with Berliner Bank Gesellschaft, BHF-Bank and the privately owned Sal Oppenheim bank - make up "small part" of the German banking sector. "What big changes can they bring about?" he asks.

Mr Ernst Michel Kruse, the new chairman of BHF-Bank, also sees limited scope for change until the non-private sector banks are trimmed. "Half the banking industry is savings and co-operative banks," he says. "You have to ask how significant any restructuring or consolidation could be in an industry at large that does not change this fundamental structure." He expects change in time.

The main private sector commercial banks have only about a fifth of the German savings and deposit market. In other countries one bank alone has this," Mr Kopper says. Hence his belief that there will have to be a further slimming down in the savings and co-operative bank sector.

To cut costs and improve service and efficiency in this over-banked market, all the big banks have been streamlining their extensive branch networks, concentrating their back office activities and shedding staff.

There was a move to combine private and public banks under one corporate roof with the formation of Bankengesellschaft Berlin in 1994. This brought the public sector Landesbank Berlin, which owns the city's savings bank, together with a property finance bank and

Realising such potential will not be easy in a country with strict labour laws and strong employee representation on supervisory boards.



Hilmar Kopper: status quo will be maintained

Berliner Bank, a commercial bank.

But the component banks are still run separately and the group's performance has been hampered by reorganisation. Also, it has been performing poorly, with last year's results affected by a jump in provisions because of bad property and business loans.

It is now trying to expand further by merging with Hanover-based Norddeutsche Landesbank, also in the public sector.

This would create one of Germany's biggest banking groups. Yet although it would take the restructuring process in German banking a stage further, it would not be the big step many people are waiting for. For one thing, the strong political influence is likely to inhibit reductions in costs and jobs. For another, it will not involve any of the top names in private sector banking.

There has been speculation that the Berlin group might be interested in buying BHF-Bank, although both have denied talks.

Westdeutsche Landesbank, Germany's biggest public sector bank, excited the market this year when it produced a detailed study of who might profitably combine with whom. It identified three main potential groupings: Deutsche Bank and Vereinsbank (with potential synergies and savings from branch and job cuts of about DM5.6bn in 1998); Dresdner and Hypo-Bank (DM4.5bn); and Vereinsbank and Hypo-Bank (DM7.7bn).

Another reason for the business's success is the sector MobilCom is in. The mobile phone market is an exciting, fast-growing and - as Mr Schmid's globetrotting shows - increasingly international business. The German mobile phone market grew 7 per cent in the first quarter. In France, Italy and Spain growth was 12 per cent.

Another reason for success was the publicity surrounding the launch of Germany's new small company exchange, called the Neuer Markt. "The time was right, telecommunications is interesting and then the Deutsche Börse promoted the Neuer Markt and they therefore promoted us too."

But in spite of the free publicity, Mr Schmid insists that the surge in the share

## PROFILE

MobilCom

# Trailblazer reaps reward

Mr Gerhard Schmid, chairman of MobilCom, is learning English. He is sitting in his small office in Schleswig, a quiet, former Viking town in northern Germany, only a short distance from the Danish border.

He has just returned from London, where he met investors to tell them about his young company. Next week he will fly back to England for a technology exhibition.

"I have to know English. You can live and work here in the countryside, in the fresh air, but you learn about this industry in the US, in London," he says.

MobilCom, a mobile telephone network provider, became the darling of Germany's new stock market for growing businesses as the first company to issue new shares on the exchange in March. Following the DM60m offering, which was 100 times oversubscribed, the company's shares have rocketed, rising from the DM62.50 issue price to about DM120 by the end of March.

"We have been astounded by the success, but it does show our future opportunities," Mr Schmid says. This month the company published its results for its first quarter as a public company. Subscribers were up 14,000 to 174,000, turnover was DM6.5m and pre-tax profits DM5.5m, compared with less than DM1m a year ago.

An obvious reason for the business's success is the sector MobilCom is in. The mobile phone market is an exciting, fast-growing and - as Mr Schmid's globetrotting shows - increasingly international business. The German mobile phone market grew 7 per cent in the first quarter. In France, Italy and Spain growth was 12 per cent.

Among other things, the Neuer Markt requires that companies provide accounts according to international accounting standards and that results be available in English.

But perhaps the most important reason for the company's success is the aggression and focus with which MobilCom has approached the mobile telephone market. It is these qualities, says Mr Schmid, which have made it possible for the small company, only six years old, to survive against big competitors such as Bosch, Daimler-Benz, BMW, Ford and Motorola.

Before he founded MobilCom Mr Schmid worked at Sixt, the car rental company - "also a tough business."



Gerhard Schmid (left) and fellow director Carsten Meyer: "We have been astounded by the success"

price is more a sign of interest in the company than in the new market. "Nobody just invests in the market, they invest because they are interested in the company. The market just tells you that there is transparency, that the company has proper accounts, that it has a prospectus, that it is official," he says.

He points to new successful sales techniques. MobilCom has introduced a system of direct sales including 300 freelancers, who are paid commission for every new customer they sign, and a network of 60 franchisees across Germany.

But perhaps the most important reason for the company's success is the aggression and focus with which MobilCom has approached the mobile telephone market. It is these qualities, says Mr Schmid, which have made it possible for the small company, only six years old, to survive against big competitors such as Bosch, Daimler-Benz, BMW, Ford and Motorola.

Before he founded MobilCom Mr Schmid worked at Sixt, the car rental company - "also a tough business."

Success is changing MobilCom. Not least, the extraordinary rise in the company's share price has meant its 233 employees have become more interested in shares, and not just those of MobilCom. "They also feel their work is more recognised, and that adds to motivation," says Mr Schmid. "All of the heads of department are now driving BMWs."

The business's expansion also means that the company will soon have to move a lot of its operations from the centre of Schleswig - where it was originally based with a loan from the local state government - to a bigger site about 10 miles away.

While the company has come a long way, Mr Schmid thinks it has much further to go. He points out that the penetration rate of the mobile telephone market in Germany - the number of subscribers as a percentage of the population - is below the Western European average and is still only about half as big as that in the UK. "The market for the coming years is unending," he says.

He now wants the company to expand into new areas, in particular into fixed-line telephones when this market is liberalised next year. This would bring MobilCom into even closer competition with the big European telephone providers as it fights for calls in the normal household and office market.

But whatever happens, Mr Schmid intends to stay true to the company's motto: "Free and independent."

He says: "There have been offers in the past - for DM20m, DM40m in 1993, in 1994. But what would I do with the money, play golf?" He owns 70 per cent of the company and 31, the venture capital business, 10 per cent. The remaining 20 per cent was floated.

Mr Schmid smiles when he contemplates his competitors. "All the others are subsidiaries of bigger, huge companies. They are like children, whereas we are not, we are our own company."

Graham Bowley

## SMALL COMPANIES • by Graham Bowley

# Innovation helps banks look to the future

The need for risk capital is getting increased attention, not least from banks

Making it easier for small but promising companies to gain access to the capital they need to grow has become a hot topic in Germany at a time of high unemployment and a sluggish economy.

The job-creating possibilities of small, innovative companies and the need for risk capital are receiving increased attention, not least from the banks, which are worried about where their future customers are going to come from.

Perhaps the most important step forward has been the establishment by the Deutsche Börse, the Frankfurt stock exchange, of a new market for small companies - the Neuer Markt.

A listing on this market requires companies to provide transparent and frequent financial reports which meet international accounting standards, available in English as well as German, as a way of boosting investor confidence in the small company segment.

The market was opened in March with the launch of its first issue - by MobilCom, a mobile phone service provider - and a relisting from another, less successful exchange by Bertrandt, a car design service company.

Since then, three other companies have sold their intended to list on the exchange, and the market authorities expect about a dozen more businesses to have listed by the end of the year.

The main reason why the Neuer Markt has so far enjoyed success is because investors believed they would be well informed. Things were transparent," says Mr Uwe Flach, a mem-

ber of the board of DG Bank, which brought MobilCom to the market.

Mr Rolf Breuer, chairman of Deutsche Bank, Germany's biggest bank, and supervisory board chairman of the Deutsche Börse, is optimistic about the market's future - especially since other small company markets in other European countries such as AIM in Britain and the Nouveau Marché in France are doing better after some starting problems in the French market.

The job-creating possibilities of small, innovative companies and the need for risk capital are receiving increased attention, not least from the banks, which are worried about where their future customers are going to come from.

The new fund - which will be enlarged by a further DM20m if it is successful - marked the end of a year's programme by Deutsche Bank to provide start-up help for young, hi-tech companies.

The new fund - which will be enlarged by a further DM20m if it is successful - marked the end of a year's programme by Deutsche Bank to provide start-up help for young, hi-tech companies.

Reasons for this change include the current buoyant state of the German stock market - the DAX index has been regularly posting new highs in recent months.

But perhaps a more important reason is the expected shift in the German pension system from a pay-as-you-go system towards private pension schemes more common in countries such as the UK. This shift is likely to increase the awareness of equities among investors.

Finally, a number of tax disadvantages have been removed from issuing shares.

An important milestone in increasing investor awareness of equities was the huge public offering of shares in Deutsche Telekom by the government last autumn.

It was a roaring success. The Telekom issue helped a great deal in making equities more popular," says Mr Flach.

He thinks that small companies in general which are looking to raise new finance through an equity issue can draw important lessons from MobilCom's experience on the Neuer Markt.

One of the most important, according to Mr Flach, is that the issue's success can be helped if the company is regarded as being in a growth industry, such as mobile telephones.

"With telecoms, it was relatively easy to convince people this was a growth industry," he says. "The company was in a sexy industry. It was the right industry and the right stock at the right time. They also got a lot of free advertising because they were the first one on the Neuer Markt."

A second important lesson is that companies need to realise that they have duty in the Neuer Markt to meet the high standards required by the exchange, such as international accounting rules.

Meeting these standards can be costly, but they also provide an important boost to investor confidence.

A third lesson is that the issue is helped if it is a capital increase, with the company's managers staying in place, rather than an outright sale of stock with the owners quitting the business.

A capital increase for the company is a sign that the managers believe in the business, they are staying and want to expand. This builds confidence among investors," says Mr Flach.

A final lesson is that it is important to have a period of bookbuilding during which the lead managers are able to test market sentiment and gauge where and to what extent there is demand for the new shares.

"It helped a great deal. You found a level in the market where the demand was," says Mr Flach.

## QUALITY RESOURCES FOR CHANGING MARKETS

EUROPEAN SAVOIR-FAIRE

dramatic shifts in priorities and ways of conducting business, new problems caused by change invariably spawn new opportunities - requiring the strength and resourcefulness of the financial community. That's where Deutsche Girozentrale - Deutsche Kommunalbank - comes in. DGZ is a central institution of Germany's Savings Banks Organization, the country's largest banking sector. Backed by substantial resources plus proven knowhow

The bank's service potential covers a broad range of wholesale commercial and investment banking capabilities, including syndicated fund-raising operations. Moreover, DGZ provides the full spectrum of Eurobanking services through branches in Berlin and Luxembourg as well as a subsidiary in Luxembourg.

If you are looking for a banking partner with quality resources for changing markets in Europe, have a talk with DGZ.

DGZ - the small team with big resources



**Deutsche Girozentrale  
Deutsche Kommunalbank**

Frankfurt/Berlin

Tausenstrasse 10, D-60329 Frankfurt am Main, Tel.: (069) 26 93-0, Fax: (069) 26 93-3490; Friedrichstraße 101, D-10115 Berlin, Tel.: (030) 31 55 67-0, Fax: (030) 31 55 67-30; Luxembourg Branch: 16 Boulevard Royal, L-2449 Luxembourg, Tel.: (352) 47 49 60, Fax: (352) 47 24 77; DGZ International S.A.: 16, Boulevard Royal, L-2449 Luxembourg, Tel.: (352) 47 24 71, Fax: (352) 47 24 77

JULY 1997

INVESTMENT FUNDS • by Laura Covill

## Investors reluctant to quit savings habits

The need for long-term personal investment has never been greater

Despite the industry's efforts to create a new fund-based vehicle for personal pensions, funds are still not the preferred investment for most Germans and the banks advising them.

In terms of performance, the past year has been the ideal time to persuade Germans to abandon their old savings accounts and shift their assets into funds. Over the past 12 months (to mid-May 1997) the equities bull market has propelled the 96 German stock funds to average growth of 35 per cent. The top performer was DIT's Wachstumsfonds, which grew 52 per cent.

As state and company pensions decline in value, the need for long-term personal investment has never been

greater. According to Mr Rolf Passow, chief executive of DIT, which is owned by Dresden Bank, "the number of people who believe they'll need additional provision for their old age is growing rapidly. That's now about 80 per cent of the population".

Yet funds are not the only option, say the bankers which through their branch networks control most of the retail market for funds in Germany. In Germany, a financial adviser's primary decision will be not which funds to choose, but whether to select funds at all. They often decide that real estate, insurance policies or direct securities investments are a better choice.

Tax reform is on its way, but German tax laws in their present form make property investments a preferred choice for high-income individuals. One outlandish choice, ship participations, is no longer a tax avoidance method.

For fund managers, this is

the downside of the German system, where every significant fund provider is owned by a bank which invariably recommends its funds but also represents the fund manager's main sales outlet. Fund marketers are almost entirely dependent on the decisions of the banks' investment advisers.

Mr Klaus Esswein, chief executive of the ADIG funds group, says with regret that last year, many German banks demonstrated they had "different priorities" from the funds providers.

Meanwhile, competition among German fund providers is getting tougher. Over the past two years the number of retail funds available from German providers alone has grown from fewer than 800 to 1,050. More than 2,000 others from non-German providers are being marketed in Germany.

"Enormous efforts are needed to be a leading performer in this environment," says Mr Udo Behrenwaldt, a

managing director of DWS, the fund company owned by Deutsche Bank.

Unless the bank's in-house fund manager performs as well as the competition, a bank's investment advisers may recommend alternatives from in-house insurers or even devise their own portfolio management scheme.

Retail investors are realising that their bank invariably offers products from its in-house fund provider. But given the poor image of independent financial advisers as unqualified and unregulated profession, there are few credible alternatives.

From next year, independent advisers will be obliged to obtain a qualification. Ms Jutta Funck, the local managing director of Gartmore, believes that once the German public begins to trust independent financial advisers at least as much as banks are trusted, they will hear more about "foreign" funds, which are still unknown to most Germans.

Although foreign-managed funds do not perform better on average than German-managed alternatives, the fact that they are perceived as a more independent choice may boost their popularity.

At present, foreign fund providers such as Gartmore, Fidelity and Templeton attract German customers through press advertising and by holding information sessions for private investors. But none is willing to publish its German sales figures.

It is a rare German bank which breaks ranks by offering foreign funds to their customers. Usually their motive is to make a statement of independence from their parent bank. Thus most direct banks offer a full range of funds.

In the mass market, a few local savings banks (Sparkassen) and co-operative banks offer foreign funds to stand out from the local competition. But they are

placed under heavy pressure from their in-house fund managers to fall back in line.

There are also a few private banks which seek independent alternatives for high net worth individuals. One is Baden-Württembergische

Bank, regional bank which includes funds from Fidelity, Flemings and Gartmore as well as German fund managers such as DWS in its discretionary portfolio for wealthier private investors.

Mr Gerhard Single, co-

head of fund-based portfolio

management, complains that some German banks still mislead their in-house funds to dump unsold securities from public offerings in which the bank has participated.

Furthermore, he says, German fund managers will not provide regular details of the fund's composition.

"We can't find out what securities are held in the funds from the big banking groups."

Investors won't accept that any more," Mr Single says.

However, winning broad

popularity for funds depends neither on independence nor on transparency. German fund managers argue that small investors are willing to invest large amounts in pension plans, but are confused about the best way in which to do so.

A scheme drawn up by the German investment fund association (BVI) proposes a new type of pensions vehicle known as "Pensions-Souveränvermögen" (PSV), which will invest up to 75 per cent of funds in equities and up to 30 per cent to real estate.

At present, German fund providers are not allowed to combine these two forms of investment in a single vehicle.

The PSV scheme forms part of the forthcoming Third Financial Markets Promotion Act, which was originally supposed to be introduced by late 1996 or early 1997. But the German government and parliament are occupied with so many reforms that the investment

attempted a hostile takeover of its bigger rival, Thyssen. Krupp-Hoesch later settled for a merger of their steel operations, partly in response to pressure from the unions and politicians.

"I strongly believe the Krupp/Thyssen story will change the German corporate landscape. Even big companies will learn from it that they too could be a target for hostile takeovers if there is too big a difference between their asset value and market value."

Mr Koehler has not given up on Germany yet. He stresses he is hopeful "the new generation of younger German managers and pressure from international capital markets" will accelerate the pace of change.

One can imagine Mr Koehler pitching his tent elsewhere if it does not.

Sarah Althaus

PROFILE Robert Koehler

## Corporate success story

Visitors to the headquarters of Mr Robert Koehler, chairman of SGL Carbon, the carbon and graphites group, should not be taken in by first appearances.

With its staff of 17, housed in a genteel villa in a sleepy suburb of Wiesbaden, it is hard to believe this is the brain centre of one of Germany's fiercest crusaders of

Anglo-American management principles and head office of one of its most profitable listed companies.

Mr Koehler, 38 and sharp-tongued, soon puts you straight. With the country's unit wage costs the highest in the world, SGL Carbon is "keeping a close eye on whether we should move out of Germany altogether". And

the headquarters were "deliberately designed as a tent easy to take down and erect somewhere else if we need to - not something you can do with a palace and hundreds of employees".

As Germany struggles with 10 per cent unemployment and the trend towards globalisation takes hold, remarks such as these have blackened Mr Koehler's name among the country's powerful unions and some of its politicians.

At the same time, he has earned respect in the international business community for his efforts to improve awareness of shareholder value in a country which is only slowly beginning to distance itself from its stakeholder culture.

He has also tackled many of the taboos of German corporate life, such as stock options schemes for management, wage costs and share buy-backs.

The proof that he is on the right track, Mr Koehler says, is in SGL Carbon's own success story. When he took charge five years ago it was a little-known, loss-making arm of the Hoechst chemicals group.

Today it is a world leader in its field, with a return on capital employed of 26 per cent last year and a market capitalisation of DM4bn. Since its initial public offering in 1995, its stock has more than quadrupled in value.

To get this far, Mr Koehler, born in the conservative city of Munich,

took a decidedly un-German route. Helped by 11 "highly formative" years at Hoechst UK, followed by a spell as head of Hoechst's Columbian operations, Mr Koehler says he realised the key to success was adapting quickly to the challenges of globalisation.

For SGL Carbon this meant in part expanding globally and moving two-thirds of its production abroad and away from Germany's high cost base. And this when many German managers were still focusing "on regional business", as Mr Koehler puts it, at home or in Europe.

In addition, it meant trying to satisfy the exacting demands of international investors who, following

largely an unknown quantity to Germany. "The problem here [in Germany] is that many people still talk a lot of nonsense about shareholder value and don't really understand what the word means - or how to make it work at the operating level."

"It's symptomatic that we don't even have a proper word for it in German."

But Mr Koehler is not a man to be parted from his vision. Leaning on his experience abroad, he called in a strong foreign

contingent to his management "to help us move away from the traditional way German companies are run." Fewer than half the group's 70 senior managers are German.

Unlike many other German managers, who are merely paying lip service to the concept of shareholder value, Mr Koehler has put

his words into action. To him, this means not only introducing benchmarking, a clearer corporate structure, more open communication with investors and ambitions profit goals, but also creating a motivated workforce.

Under Mr Koehler, SGL Carbon became the first German group to introduce a stock option and share ownership schemes for managers. This was "revolutionary", he says, in a country where wage differentials between top management and assembly line workers are among the lowest in the world and there is a great deal of public scepticism about performance-related pay."

For Mr Koehler, further proof that SGL Carbon chose the right strategy came earlier this year when Krupp-Hoesch, the steel and engineering group,

SGL Carbon's listing on the New York Stock Exchange last year, comprise about three-quarters of its shareholders.

Even now as German

companies increasingly turn to foreign capital markets for liquidity to expand, Mr Koehler admits that shareholder value remains

largely an unknown quantity to Germany. "The problem here [in Germany] is that many people still talk a lot of nonsense about shareholder value and don't really understand what the word means - or how to make it work at the operating level."

"It's symptomatic that we don't even have a proper word for it in German."

But Mr Koehler is not a man to be parted from his vision. Leaning on his experience abroad, he called in a strong foreign

contingent to his management "to help us move away from the traditional way German companies are run."

Unlike many other German managers, who are merely paying lip service to the concept of shareholder value, Mr Koehler has put

his words into action. To him, this means not only introducing benchmarking, a clearer corporate structure, more open communication with investors and ambitions profit goals, but also creating a motivated workforce.

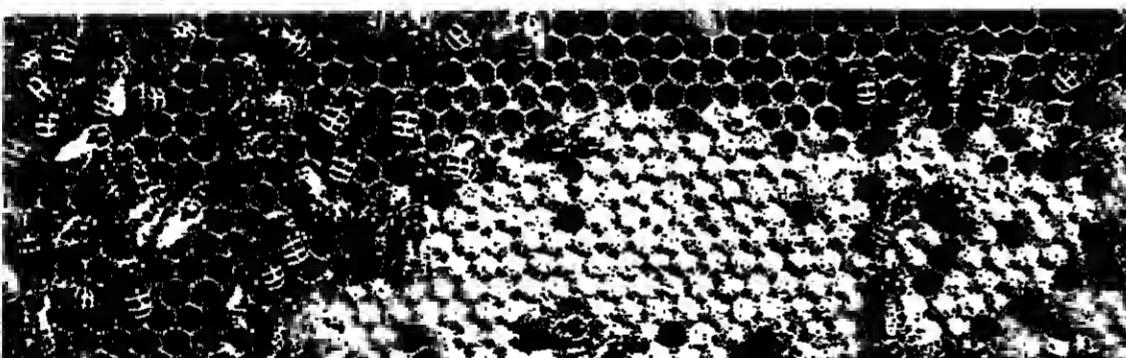
Under Mr Koehler, SGL Carbon became the first German group to introduce a stock option and share ownership schemes for managers. This was "revolutionary", he says, in a country where wage differentials between top management and assembly line workers are among the lowest in the world and there is a great deal of public scepticism about performance-related pay."

For Mr Koehler, further proof that SGL Carbon chose the right strategy

came earlier this year when

Krupp-Hoesch, the steel and engineering group,

No sweat without sweat:  
"Triple A"



International investors know why they appreciate us as a successful issuer on the world capital markets. This also has to do with our first-rate credit standing. Our triple A ratings have not come easily to us but are the result of hard work.

Rentenbank is a central refinancing institute for medium-term and long-term loans. It is a public sector bank with a mission to promote German agriculture. Its customers are banks.

Annual Report on request.

Landwirtschaftliche Rentenbank  
P.O. Box 10 14 45  
D-60014 Frankfurt am Main  
Telephone: 0049 69 2107-269

# in 1996

# Success

| DePfa-Bank Group Accounts as at 31.12.1996 |         |         |        |
|--|---------|---------|--------|
|  | 1996    | 1995    | Change |
|  | DM m    | DM m    | in %   |
| Lending portfolio                          | 150,174 | 131,450 | +14.2  |
| Outstanding securities                     |         |         |        |
| including loans taken up                   | 133,979 | 117,063 | +14.4  |
| Balances sheet total                       | 172,190 | 151,215 | +13.8  |
| Operating profit                           | 466.5   | 321.0   | +45.3  |
| Net profit                                 | 185.1   | 141.4   | +31.6  |



**DePfa-Bank**  
Deutsche Pfandbrief- und Hypothekenbank AG

Amsterdam · Berlin · Brussels · Chemnitz · Dresden · Dublin · Düsseldorf · Erfurt · Essen · Flensburg · Frankfurt/Main · Freiburg · Hamburg · Hanover · Leipzig · London · Ludwigshafen · Magdeburg · Milan · Munich · Nuremberg · Paris · Rome · Schwerin · Stuttgart · Wiesbaden

## 6 GERMAN BANKING AND FINANCE

EASTERN EUROPE • by Graham Bowley

# Move to the east pays off

The pattern of German banks' involvement has followed the pattern of trade

German banks have been quick to follow the country's business and industry into eastern Europe and are now heavily involved in the region.

According to a report last year by the Bundesbank, the German central bank, Germany alone accounted for one third of eastern and central European countries' trade with western industrial countries by the middle of 1996. This follows rapid growth: between 1993 and 1995, Germany's exports to the central and east European countries rose by about one third to just under DM80bn.

"The central and east European economic area is therefore already more important as an export market for Germany than, for example, the US," according to the Bundesbank. As further proof of the strong and growing links, about one tenth of Germany's total direct investment now flows to central and eastern Europe.

"For all the eastern European countries, Germany is by far the largest foreign trading partner in terms of imports and exports. That makes it quite different from other European countries and that shows the region's importance to our customers," said Mr Edwin Rindt, deputy manager responsible for middle and eastern Europe at Commerzbank in Frankfurt.

"[The opening up of eastern Europe] has brought a whole new market nearby Germany and with a big potential. It is almost our

own market. We have been focusing a lot of resources on it and we have made profits from it and a reasonable return from it," Mr Rindt said.

Not surprisingly, the pattern of German banks' involvement in these countries has largely followed the pattern of trade. Export growth has mainly been concentrated in Poland, the Czech Republic and Hungary, which together account for more than a half of German companies' exports to central and eastern Europe.

Reflecting this, the main inroads made by the banks have been in these three countries where reform has been greatest, although they are also involved in Slovakia, Slovenia and the Baltic states. They are also now pushing more heavily into areas where economic progress is less well advanced such as Bulgaria, Romania, Croatia, Russia and beyond into central Asia.

"Poland, the Czech Republic, Hungary, these are the countries to which international investors have gone and the basis of our strategy was to go with our clients," said Mr Peter Tils, a director responsible for middle and south-eastern Europe at Deutsche Bank.

But while the main banks are seeking to build a presence in eastern Europe, the strategies they have adopted to achieve this goal have differed. Deutsche Bank, for example, has adopted a strategy of opening its own new subsidiaries in the region, while Commerzbank has tended to buy into existing operations in the area. Most banks, however, are now trying to develop their business from their initial operations in commercial banking into investment banking.

"We started with corre-

|                | 1995 | 1996 |
|----------------|------|------|
| EXPORTS        | 1995 | 1996 |
| Mainly to:     |      |      |
| Russia         | 50   | 41   |
| Poland         | 13   | 10   |
| Czech Republic | 12   | 8    |
| Hungary        | 7    | 6    |
| IMPORTS        | 1995 | 1996 |
| Mainly from:   |      |      |
| Russia         | 14   | 11   |
| Poland         | 12   | 9    |
| Czech Republic | 11   | 8    |
| Hungary        | 7    | 6    |

Source: Bundesbank

spondent banking but after we saw our customers were there, it was clear that this was not enough, we had to be present at Deutsche Bank. So we established a network of representative offices. The next step is to establish some subsidiary branches," said Mr Hubert Pandza, responsible for eastern Europe and central Asia at Deutsche Bank. Deutsche, which opened a branch in Prague in 1993, has a subsidiary in Poland and which opened a subsidiary last year in Hungary, is keen to emphasise its historically strong links with the region. It has played a leading role in many of the eastern European countries' big privatisations and in many of the big loans to the region — it is helping to arrange the latest syndicated loan for Gazprom, the huge Russian gas utility.

"On average, 25 per cent of the trade between Germany and eastern Europe is channelled through our books," said Mr Tils. "We have close links to the governments, to the central banks and to new business," he said. One country where Deutsche is especially proud of its links is Russia, where it has representative offices in the Slovak Republic, and is also now considering a "strong presence" in the south-eastern European countries, including the former Yugoslavia.

"Our approach has been different from that of Deutsche and Dresdner. They have opened their own branches but where it now plans to open a subsidiary and to integrate both its commercial and investment banking activities under one roof."

Deutsche has led the restructuring of Russia's commercial bank debt, the so-called London Club debt, which the country inherited after the collapse of the Soviet Union, and on which Deutsche expects to reach an agreement this summer. Deutsche last month opened a new representative office in the east as France is in the west," said Mr Pandza.

"We started with corre-

porating and privatising municipal services.

PRIVATE BANKS • by George Graham

# Beauty contest winners

Germany's private banks have had to reassess their futures in recent years

The Frankfurt skyline is dominated by the towers of Deutsche Bank, Dresdner Bank and Commerzbank, testaments to the power and might of the German banking system.

In their shadow, just next to the Frankfurter Hof hotel, sits a more modest building with the words "Sackloth" and "Affinen" inscribed on its walls: the headquarters of Schröder Münchmeyer Hengst & Co, one of the city's private banks.

Sackloth may seem an inappropriate theme for a private bank, but Mr Jochen Neynaber, SMH's co-chairman, has no illusions about the need for modesty in the face of Deutsche Bank and the other titans.

The other guys are so big. Those guys get the first account, the second and the third. After that it's the beauty contest," he says.

Not all of SMH's competitors are so modest. Those with the luck or judgment to be based elsewhere than Frankfurt — Sal Oppenheim & Cie in Cologne, for example, or M.M. Warburg in Hamburg — have sometimes found it easier to build substantial local businesses away from the shadow of the big three.

"Like Caesar said, it is better to be number one in Gaul than number two in Rome," says Mr Karl Otto Pöhl, the former Bundesbank president who is now chairman of Oppenheim's managing partners.

Several private banks, too, have developed market-leading positions in specific areas: Trinkaus & Burkhardt in Düsseldorf, for example, is a prominent operator in the German derivatives markets, while the much smaller B. Metzler & Co, in Frankfurt, has one of the largest mergers and acquisitions businesses in Germany, with a particular niche in advising local governments on ways of incor-

porating and privatising municipal services.

For all Mr Neynaber's modesty, too, SMH has built a top-rated equity research and broking business.

Nevertheless, Germany's private banks have almost without exception had to reassess their futures in recent years. Most have concluded that they no longer have the capital to compete in traditional but high-risk areas such as lending, and have sought to refocus on less capital-hungry activities, principally corporate finance advice, equities broking and — source of the highest hopes — fund management.

In their shadow, just next to the Frankfurter Hof hotel, sits a more modest building with the words "Sackloth" and "Affinen" inscribed on its walls: the headquarters of Schröder Münchmeyer Hengst & Co, one of the city's private banks.

Sackloth may seem an inappropriate theme for a private bank, but Mr Jochen Neynaber, SMH's co-chairman, has no illusions about the need for modesty in the face of Deutsche Bank and the other titans.

The unanimity with which private banks have opted for the same strategic goals is remarkable, given the disparate nature of their corporate structures.

Of the purest private banks — run by personally liable partners and still controlled by the family — only a handful remain. Oppenheim is the largest, with others such as Metzler and Delbrück. Even Hauck and M.M. Warburg have large financial institutions among their shareholders, though they are not controlled.

Yet even banks owned by larger financial groups — SMH is controlled by Lloyds TSB of the UK, and Trinkaus & Burkhardt by HSBC Holdings — are in many cases structured as Kommanditgesellschaft auf Aktien, a curious cross between a partnership and a public company run by personally liable partners.

The partnership structure plays an important marketing role in the asset management business. Mr Neynaber, of SMH, says it is important to have a personally liable partner dealing with a very wealthy private client, "because it puts us on his level".

The failure of the big banks to replicate the success of the private banks in the wealth management market through subsidiaries such as Deutsche Bank's Grunerlins or Dresdner's Hardy suggests that there may be something to that argument.

"The macro scenario in this business is very clear," says Mr Pöhl.

"People don't trust the official pension schemes any more, and know they have to take steps to provide for their old age. Incomes are high, and there is a wave of inheritance of business fortunes built up since the war."

Private banks fare very well in the provision of asset management for very high net worth individuals who may have sold their father's business, but they have a problem with distribution to a wider market, although some, such as Oppenheim, are experimenting with the sale of funds through insurance companies.

What they cannot wait for is the inevitable reform of German pension law to encourage the setting up of segregated pension funds, a market in which they believe they are particularly well-equipped to compete.

Today, companies are allowed to make provisions for their pension liabilities on balance sheet, rather than in segregated funds, while employees are taxed on their pension contributions.

As a result, only a few multinational companies such as Hewlett Packard have set up segregated pension funds.

The few institutional fund management mandates around are also, for the most part, based on absolute performance — a requirement to achieve an actuarial return of, say, 6 per cent — rather than benchmarked against peer groups or market indices, as is usual in the US or UK.

"We are not accepting new mandates based on absolute return. We want clean benchmarks," says Mr Neynaber of SMH.

Pension reform may take some years to arrive, but private bankers have already taken steps to establish disciplined fund management teams so that they will be ready when the day comes, and with it a long-awaited development of Germany's equity market.

The likely development of the pension fund market has not escaped the sights of Frankfurt, and they too have been building up their fund management operations.

Still, when reform comes, most private banks believe there will be plenty of business left for them.

"This is a business which has a future," concludes Oppenheim's Mr Pöhl.

CARDS AND PAYMENTS SYSTEMS • by George Graham

# Plastic money catches on

A decade ago there were only 1.7m cards in issue. Today, there are 13.6m

Change in the German retail banking market has long been a glacial process, but developments in products and delivery channels over the past few years have started to shake up the sector.

Germany was once a backwater of the European credit card market, but the country's consumers are now adopting plastic cards in increasing numbers.

At the same time, customers are signing up in droves for a new generation of direct banks offering financial services by telephone or PC.

In the payments market, Germany used to be dominated by cash, giro and Eurocheques. A decade ago, cards were used largely for travel and entertainment and only 1.7m were in issue.

That number has already moved to 13.6m, and Mr Laurenz Kohlheppel, head of Gesellschaft für Zahlungs-Systeme, the central German payments processing consortium, expects it to climb to 17m by the year 2000.

Helped along by the intervention of the German cartel office, the dominance of the Eurocard, issued directly by GZS, has been broken down. Today, although Eurocard still leads with 7.9m cards, banks are issuing their Eurocard/MasterCards, while Visa has also broken through into the German market.

Citibank, the US retail bank which is the world's largest card issuer, has led the charge as a Visa issuer, although the big German banks such as Deutsche and Commerzbank now also issue Visa cards.

Most cards are still, in effect, deferred debit cards: the bill is paid off each month and the credit line, if any, is attached to a current bank account, not to the card itself.

But Citibank's biggest blow to the traditional structure of the card market came with its co-branding deal with Deutsche Bahn, the national railway system. DB has around 3m BahnCard holders, who for a flat annual fee get a 50 per cent reduction on rail fares. In 1994, it decided to outsource the operation to a card processor, who could add a payment function to the Bahn-

card. The contract was originally awarded to GZS, but when the card consortium told its members that they would have to absorb losses on the deal, the cartel office intervened. The contract was subsequently re-awarded to Citibank.

Results from the BahnCard have been more disappointing than Citibank originally hoped. The bank intended to issue Visa cards automatically to all adult BahnCard holders, but ran into flak from consumer associations which feared that move would encourage customers to get into debt. As a result, the combined Visa/BahnCard is now offered only as an option, so take-up has been slower than at first projected.

Still, 455,000 cards were in issue by the end of April, making the BahnCard one of the largest payment card programmes in Germany. Other co-branding deals such as Berliner Bank's programme with ADAC, the German automobile association, have also boosted card issuance in Germany.

The changes in the market structure have been so great that GZS has been compelled to change its own structure. The company has now been split into two, with one arm conducting processing operations for all cards, and a separate unit as licence holder for the Eurocard brand in Germany.

While other German banks have also started to issue credit cards, some outsiders believe they have only started to scratch the surface of the market's potential.

Most cards are still, in effect, deferred debit cards: the bill is paid off each month and the credit line, if any, is attached to a current bank account, not to the card itself.

In the US, the link between current account and card account has been almost entirely broken, and in the UK it has started to crumble in the face of highly competitive offerings from specialist card issuers. In Germany, that process has scarcely begun.

But the banks' relation

ship with their current account customers is coming under more immediate attack from a wave of direct banks which have begun to woo clients in growing numbers.

Some of the earliest direct banking operations concentrated on a limited range of services. Direkt Anlage Bank, for example, focuses on broking and investment products, while Quelle Bank, an offshoot of the Quelle mail order group, concentrated on consumer finance.

The leading commercial banks have now pitched into the market with full service direct banking subsidiaries, including Bayerische Vereinsbank's Advance Bank, Commerzbank's Comdirect, and Deutsche Bank's Bank 24.

Bank 24 is perhaps the most ambitious of these. By the end of April it claimed 110,000 customers, and its target is 500,000 by the end of 2000.

"We are basically convinced that the direct banking market will have sorted the sheep from the goats in the next few years. Institutions which are growing in a small way will lack the economies of scale to compete. We are being very aggressive in order to add 100,000 clients a year," says Mr Holzapfel of Bank 24.

Comdirect now has 83,000 customers and expects to have 200,000 by the turn of the century, according to managing director Mr Bernd Weber, while Advance Bank, which won 25,000 customers in its first year in business last year, said it hoped for a client base of 250,000 by the year 2000.

The direct banks have been set up as free-standing operations in a bid to escape from the rigidities of the German banking industry's centrally negotiated pay scales and working conditions.

Bank 24, for example, gives 26 days holiday a year compared with 32 or 33 in its parent company, and has wage costs 30 per cent below the industry standard tariff.

Even so, none is yet making money, and break-even is still a long way off.

"We could not have had a five-year business plan with a break-even target if we had been inside the industry tariff. If we had had to do that, we would have gone to Scotland or Brighton," Mr Holzapfel said.

The telephone banking centre has been set up in Bonn, well away from Deutsche Bank's headquarters in Frankfurt. It is no accident that other large call centres have also been set up in the state of Nordrhein-Westfalen.

Citibank's is in Aachen and Dresdner Bank's new centre will be in Duisburg — since the regional government there is much more amenable than other states to the idea of 24-hour working.

What is particularly attractive about direct banking for the big German commercial banks is that they run only a limited risk of cannibalising their own customers.

The retail banking strength of the savings and co-operative banks, many of them limited by statute to a narrow geographical area, makes them a tempting target for commercial banks with nationwide networks.

But in a market that is now in flux, the coming years could yet shake up long-established market positions.

Move up from First Class, with  
AEROLEASING

Go wherever you want,  
Whenever you want,  
in true style and luxury.

Europe's leading customer service

GENEVA Tel: +41 (22) 717 00 00  
ZURICH Tel: +41 (1) 514 57 00  
<http://www.aeroleasing.ch>



Global banking made by WestLB.  
The world is shrinking. Whereas your scope is constantly growing. Theoretically. And practically? Whenever you wish to make more than just a small move, include the WestLB in your plans. We appreciate global thinking and, as one of Europe's leading banks, we have both the experience and the potential to achieve even exceptional goals — with you. Established as a German wholesale bank, we offer you all services from one source, made to measure, reliable and, if you like, worldwide.

Joy, 1992

winners



# FINANCIAL TIMES COMPANIES & MARKETS

Monday June 9 1997

Week 24

**IN BRIEF****Bank Austria dips on news of issue**

Bank Austria's preference shares fell more than 5 per cent on Friday after the company announced it was issuing Sch3bn (\$24.5m) of new shares at a record low price of Sch75c each and at a steep discount to the group's book value. The preference share issue is designed to help pay for Bank Austria's Sch17.2bn acquisition of Creditanstalt, Austria's second-highest bank. Page 19

**Stagecoach eyes NZ bus operator**  
Stagecoach, the acquisitive UK bus and rail company, is considering bidding for Yellow Bus Company, based in Auckland, New Zealand. It is thought the business could command a £20m-£240m (\$40m-\$65m) price tag, on annual revenues of £20m. Page 18

**US online grocery store to go public**  
Peapod, the US online-grocery store and delivery service, is expected to go public this week with an issue of 3.6m new shares on Nasdaq at between \$13 and \$15 each. The top price would value the Illinois-based company at US\$244.8m. The group, which was set up by two brothers in 1989, made a net loss of \$5.7m last year on revenues of \$29.17m. Page 19

**Belgrade cancels telecoms signing**  
The Serbian government called off the signing of an agreement to sell a combined 49 per cent stake in state-owned Telecom Serbia to Italy's Stet and OTE, Greece's state-controlled operator. No official explanation was given for the last-minute cancellation, but one participant in the talks said "technical" details had held up an agreement. Page 19

**Telefónica reaches deal on Tisa**  
Telefónica, the Spanish telecommunications operator, has secured a compromise agreement with the Spanish government that will allow it to secure outright ownership of its subsidiary Tisa, the main foreign operator in Latin America, which is 24 per cent state-owned. Page 19

**Heidelberg Zement enters Bulgaria**  
Heidelberg Zement of Germany, the world's fourth-largest supplier of cement, has beaten international competition to buy controlling stakes in two Bulgarian cement plants. The company is set to pay the Bulgarian government about \$25m for the plants, along with up to \$25m of further investment. Page 20

**Linde forecasts profit from China**  
Linde, the world's leading supplier of forklift trucks, expects its recently opened Chinese operation to report its first profits by 1998. The German company, whose only non-European manufacturing site is in Xiamen, southern China, forecasts that the business will achieve sales of Yn600m (\$72.3m) in 1997, but will continue to report losses over the next two years. Page 20

**Granada agrees £45m hotel disposal**  
Granada, the UK hotels, catering and television group, has lifted the total raised from the disposal of Exclusive hotels following the Forte acquisition to more than £450m (\$733.5m) with an agreement to sell Brown's hotel in London for £45m to Raffles Holdings of Singapore, a wholly-owned subsidiary of DBS Land. Page 18

**BCP issue to finance bank stake**  
Banco Comercial Português, Portugal's second-largest bank, is to make a big international placement of subordinated debt to help finance an Es77bn (\$441m) acquisition that will increase its stake in Banco Português do Atlântico from 50.1 to 75.1 per cent. BCP is to acquire 27.5m shares from Império, the insurer. Page 20

**Millennium expected to name chief**  
The UK's Millennium & Copthorne Hotels is expected to announce it has appointed Mr John Wilson, formerly chief operating officer of Hilton International, as chief executive. His departure from Ladbrooke, which owns Hilton International, was announced last week. Page 18

**Companies in this issue**

|                        |        |   |
|------------------------|--------|---|
| ABB                    | 20, 17 | Granada   |
| AIT Group              | 18     | HTEC  |
| Aerospatiale           | 17     | Heidelberg Zement                                 |
| BA                     | 8      | Hongkong Telecom                                  |
| BCP                    | 20     | IBM   |
| BPA                    | 20     | Kone  |
| Bank Austria           | 19     | Linde   |
| Cable and Wireless     | 17     | Millennium & Cop                                  |
| Candy                  | 8      | Nomura Securities                                 |
| China Telecom          | 17     | OTE   |
| Christians             | 19     | Peapod  |
| Creditanstalt          | 19     | SGL Carbon  |
| Dai-Ichi Kangyo Bank   | 1      | SGS-Thomson                                       |
| Dassault Aviation      | 17     | Stagecoach  |
| Dol-Mon                | 5      | Stat  |
| Eni                    | 16     | Storebrand  |
| Gas Natural            | 19     | Telecom Serbia                                    |
| Gazprom                | 5      | Telefónica  |
| Market Statistics      |        | <a href="http://www.FT.com">http://www.FT.com</a> |
| Base lending rates     | 24     | London retail issues                              |
| Company meetings       | 12     | London share service                              |
| Dividend payments      | 26-30  | Managed funds service                             |
| FTSE-P-A World Indices | 24     | Money markets                                     |
| FT Guide to currencies | 22     | New int'l bond issues                             |
| Foreign exchanges      | 24     | World Stock Market indices                        |

**ABB to cut jobs in western Europe****Group seeks growth in emerging markets**

By Stefan Wagstyl and Bill Hall

ABB, the Swiss-Swedish engineering group, is to shed thousands of jobs in western Europe over the next five years in a renewed drive to increase efficiency, cut costs and spread its manufacturing operations around the world.

The company hopes to create similar numbers of posts in emerging economies, including India, China and eastern Europe, to take advantage of lower labour costs and get closer to customers in local markets. Mr Göran Lindahl, ABB's new chief executive, said the company's growth

would come mainly

from emerging economies.

The prospect of further reductions in the western European workforce of one of Europe's most successful companies comes amid government concern over unemployment. Mr Tony Blair, the British prime minister, last week gave a fresh impetus to the debate by urging industrial leaders to pursue more flexible labour market policies.

Mr Lindahl, who took over this year from Mr Percy Barnevik, said that maintaining the company's total payroll at

today's level of about 215,000 would depend on reaching an ambitious growth target for annual order intake of \$30bn by 2001, compared with \$26bn last year. The size of the work force would depend on how much capacity the market could support, he said.

Mr Lindahl indicated jobs would be reduced in western Europe and North America even if the target were achieved because of the need to change the group's geographical balance. By 2001,

about half of ABB's staff

continuation of the strategy pursued by Mr Barnevik, now non-executive chairman, who argued that ABB could prosper in global markets only by expanding in developing countries. In 1990-96, ABB's total payroll has stayed roughly constant, but staff in western Europe and north America have dropped from 174,000 to 143,000, while employment elsewhere has risen.

ABB's record suggests it will try to achieve cuts by voluntary means. Mr Lindahl declined to say where the reductions might fall.

The biggest concentrations of staff in the industrialised world are in Germany, with 31,000, Sweden, with 26,200, and Switzerland, with 11,400. A further 20,400 work in the US. Mr Lindahl's plans are a con-

tinuation of the top line, Page 20

**UK group prises open door to huge mainland telecommunications market****China deal could be jewel in C&W crown**

By Alan Cane in London and John Riddick in Hong Kong

In sealing a deal with the Chinese government last week, Cable and Wireless, the UK's second-largest telecommunications group, has prised open the door to the tough but potentially huge mainland market.

The agreement could change the balance of power in the \$600m-a-year telecoms services industry, reinforcing C&W's appeal to suitors through what Mr Richard Brown, its chief executive, described as its "long-term partnership" with China.

It marks the latest and potentially most significant move by mainland-backed companies to take stakes in Hong Kong industries before the territory's return to Chinese sovereignty. They had already invested in the power and aviation sectors.

Industry analysts cautioned that in telecoms, as in other industries, there is a large gap between potential and profits in the mainland market, and that foreign investment in telecoms services remains barred. But they said the deal, concluded on Friday evening between Mr Brown and Mr Wu Jichuan, the Chinese minister of posts and telecommunications, gave C&W an edge.

"There are only six in 100 households with telephone lines, so it is a market where even a toehold is attractive," said one telecoms analyst. "C&W has emerged as the preferred international partner."

C&W's foothold in the Asia-Pacific region through its majority shareholding in Hongkong Telecom, Hong Kong's only full-service telecoms operator, already makes it an attractive partner for other carriers. British Telecommunications made an unsuccessful takeover bid last year, for example.

This looks like a coup for Mr Brown. In exchange for a 5.5 per cent stake in Hongkong Telecom for which the Chinese will pay \$1.2bn, the UK group will have the opportunity to penetrate the high growth telecommunications market in China".

The deal is not exclusive. Mr Brown said no telecoms operator could expect exclusive entry to the Chinese market

but it is as close to exclusive as you can get".

It is a first phase which could see C&W reduce its stake in HKT to about 30 per cent in exchange for expansion opportunities on the mainland. For now, however, C&W retains a majority stake in HKT - which provides more than 60 per cent of its profits - and removes the uncertainty surrounding its main asset. The parent will only sell down, insists Mr Brown, if shareholder value is enhanced.

For Mr Brown, appointed C&W chief executive a year ago, the problem had been how to reconcile his desire to retain a majority stake in HKT with Chinese reluctance to allow foreign majority ownership of a strategic company on its territory.

A series of visits to Beijing seems to have paid off. The company insisted there was no political pressure to reach a deal. "This bodes extremely well for a smooth transition for Hong Kong," said Mr Rod Olsen, C&W deputy chief executive.

The key to the accord was China Telecom, the operating arm of the Ministry of Post and Telecommunications and the dominant operator on the mainland with more than 300 million subscribers. It will hold the initial 5.5 per cent stake, tightening China's grip on Hongkong Telecom as China Everbright, a Beijing-backed conglomerate, already has a 7.7 per cent stake.

In exchange, C&W will have the opportunity to invest in China Telecom (Hong Kong), a subsidiary established to develop activities in Hong Kong and China. The business is expected to be listed within the next six months.

While the opportunities are vast, so are the uncertainties. Much will depend on how the first phase of the partnership with the Chinese works. Mr Brown is adamant that there is no compulsion or commitment to lower C&W's stake in HKT below 50 per cent. As to projects in China, "we have specific ideas about the future".

At least as important is how and when China Telecom (Hong Kong) will be able to invest in China. As a Hong Kong company, it faces regulatory obstacles in participating in mainland projects. Solutions, according to Mr Gaurav Kapoor at ING Barings, include the building of networks in exchange for a share of revenue streams. Others suggest mobile networks as an area for expansion, while one telecoms analyst said regulations could be amended to treat Hong Kong companies as domestic investors.

Whether or not the partnership bears fruit, analysts argue this is a watershed for C&W. Either it is the partnership which gives it the lead in potentially the world's largest telecoms market or the deal which sees the jewel in its crown shipping away.

**IBM hopes new computer will lift mainframe range**By Louise Kehoe  
in San Francisco

International Business Machines will today launch a new generation of high-performance mainframe computers, built on low-cost microprocessor chips, which it hopes will revitalise its flagship products.

The introduction of the "G4" mainframes marks the end of an era which saw the "glass house" computer system at the centre of corporate information technology systems.

The new mainframes are based on CMOS (complementary metal oxide semiconductor) chips, the technology used in personal computers. They are smaller and cheaper than traditional mainframes built using bipolar semiconductor devices.

"In terms of weight, we are moving from two tractor-trailers to a family car, in power consumption, from 12 electric cookers to four hair-

driers, in size, from a three-car garage to a walk-in closet," said Ms Linda Sanford, IBM senior vice-president.

IBM has been replacing bipolar mainframes with CMOS models for the past three years, but until now bipolar was the speed king. The G4 mainframes are the first to match the processing speed of the most powerful IBM bipolar mainframes at 63 Mips (millions of instructions per second).

In spite of the technological significance, most computer users "couldn't care less whether there are CMOS chips or wood chips" inside the box, said Mr Bob Djuricic, president of Amex Research and a veteran IBM watcher. "What does matter is the cost of purchasing and running a mainframe computer."

If IBM's CMOS mainframes are to succeed, they must find a role on the Internet and corporate intranets where Microsoft, with its Windows NT operating system and numerous PCs and small server manufacturers, are leading the way. IBM is also promoting the "reintegration" of corporate computer systems that have become more difficult to manage with the popularity of PC networks.

**Optimism on French air merger despite election**

By David Owen in Paris

Aerospatiale, the French state-owned aircraft, space and defence group, is optimistic its planned merger with Dassault Aviation will go ahead in spite of the recent election of a Socialist-led government.

Mr Yves Michot, Aerospatiale's chairman, said "relatively optimistic that the merger will take place". He acknowledged, however, that he had not discussed the issue with the country's new industry and defence ministers.

The defeat of the centre right in the general election this month has cast doubt on the deal since the Socialists are thought unlikely to consent to the privatisation of Aerospatiale, as envisaged by the government of Mr Alain Juppé, the former prime minister. If there is no privatisation, Mr Serge Dassault, Dassault's chairman, is expected to be less keen on the merger.

During last month's election campaign, Mr François Hollande, then the Socialist party's chief spokesman, said the Aerospatiale-Dassault merger "must take place with a majority of public capital". He said the Socialists wanted to "maintain public control" of the defence industry. The Aerospatiale chairman said the two groups had made good progress in determining how a merged entity would be structured. He said the two groups had "even started to think about" strategy on certain projects.

Many observers expect the change of government in France to further delay the restructuring of the European defence industry. In addition to the question mark over the Aerospatiale-Dassault deal, it is widely assumed the planned privatisation of Thomson-CSF, the defence electronics giant, will be scrapped in spite of the final bids made by Alcatel and Lagardière, the two contenders in the last month.

Aerospatiale executives also indicated they expected helicopter operations to break even in 1997. Last year, the activity contributed an operating loss of FF2224m (\$38m), although the entire group returned to net profit of FF812m after a net loss of FF961m in 1995.



Richard Brown: no single telecoms operator could expect exclusive entrance to the Chinese market but the deal with Beijing was "as close to exclusive as you can get"

This announcement appears as a matter of record only.

Volker  
Wessels  
Stevin

**Royal Volker Wessels Stevin nv**

The new name behind the merger

of

Kondor Wessels Group

and

Royal Volker Stevin

The undersigned initiated this transaction and advised

Royal Volker Stevin

**ING BARINGS**

Amsterdam, June 1997

## COMPANIES AND FINANCE

# End in sight over MMC merger reports

By Ross Tleman

Mrs Margaret Beckett, the UK trade secretary, is poised to end months of delay to three proposed mergers, by publishing the findings of Monopolies and Mergers Commission inquiries into their impact upon competition.

Reports upon the proposed merger of Bass Brewers with Carlsberg-Tetley; a combination of the Peninsular and Oriental Steam Navigation Company and Stena Line; and

the takeover by Klaus J Jacob Holding of Société Centrale D'Investissement et Associés are likely "sooner rather than later," according to industry executives.

Investigations into all three deals were completed before the UK general election on May 1. But publication of the conclusions was left to the incoming secretary of state because of the sensitivity of the findings.

If allowed, the proposed takeover of Carlsberg-Tetley by Bass Brewers will enable Bass to leap frog Scottish &

Newcastle to become the UK's biggest brewer, with 35 per cent to 40 per cent of the beer market.

Shares in Bass fell 15p on Friday to 754p (\$12) amid fears that the deal, agreed last August, could dilute earnings.

Mr John Beaumont, brokers Merrill Lynch, expects the government may oblige Bass to sell 1,000 pubs as a condition of any merger approval.

"There has to be a question mark over whether or not Bass would want to go ahead with the deal if

there are onerous conditions attached".

But another analyst suggested Bass might choose to divest its portfolio of 1,400 tenanted pubs to complete the merger.

"They want the cash flow to underpin other deals, such as the possible purchase of William Hill [the bookmaker]," he said.

Brokers also expect the proposed link-up between P&O and Stena on routes that compete with the Channel tunnel to win approval.

"It has got to be cleared," said one. "There is massive

overcapacity in that market, thanks to Eurotunnel. In some ways it is surprising that there should be any ferry companies left."

On Wednesday, the competition directorate of the European Commission is expected to signal that it is willing to allow the deal, provided concerns over marketing are met. The merger has already been approved by French authorities.

In a third report, the MMC examined a deal that would lead to concentration in the supply of chocolate used to

coat biscuits and sweets. Mr Klaus Jacob, the Swiss financier, has agreed through a subsidiary Callebaut to acquire the holding company of the French-based Barry group. Callebaut has a subsidiary in Banbury, Oxfordshire, while Barry's UK operation is based in Chester.

Both Callebaut and Barry are leading international suppliers of chocolate, and it is estimated that together they would control up to 12 per cent of the world cocoa bean crop.

27 per cent in 1995 to £15.4m, with an operating profit margin of 20.1 per cent.

In the UK, however, where Stagecoach has some 17 per cent of the bus market, passenger growth is far more subdued.

Stagecoach, floated in 1993 with a market value of just £134m (\$216m), is now capitalised at £1.64bn. Its swift growth has been fuelled by aggressive expansion.

It snapped up more than 40 bus companies following deregulation of the market.

But Mr Souter has said UK bus companies are now looking expensive. The company could also face competition issues if it sought to expand its share of the market much more.

The sector has been repeatedly investigated by Office of Fair Trading, and Stagecoach has been the subject of some 20 competition investigations. Given the constraints on its home turf, the company was the first to take advantage of opportunities in Europe. Last September, it stepped in with the £115m acquisition of Swedbus, the largest bus operator in the Nordic region.

The group had net debt of £235.2m at the half year in November, including the £54.5m securitisation of lease payments due to Portobello, its railway leasing company.

# Stagecoach may bid for NZ bus group

By Charlie Gresser

Stagecoach, the acquisitive UK bus and rail company, is considering bidding for a bus operation in Auckland, New Zealand.

This would bolster the company's presence there and enable it to expand more aggressively into the Pacific Rim, including Australia and Vietnam, and to explore joint ventures when the Chinese market opens up.

Stagecoach's renewed interest in the region comes as expansion opportunities in its home market have waned, because of the rapid consolidation of the bus market.

Mr Brian Souter, executive chairman, yesterday confirmed that Stagecoach would be interested in bidding for Auckland's Yellow Bus Company, which is being sold by Auckland regional services trust. It is thought that it could command a £30m-£40m price tag, on annual revenues of £30m.

Stagecoach's New Zealand businesses already include 120 buses in Wellington, 50 in the Hutt Valley and a further 100 in Auckland itself. Commenting on the Yellow Bus, Mr Souter said: "We're taking business off them at the moment."

Stagecoach's Pacific Rim operations are growing strongly, with revenues up

## Millennium expected to appoint Hilton chief

By Charlie Gresser

Millennium & Copthorne Hotels is expected to announce that it has appointed Mr John Wilson, formerly chief operating officer for Hilton International, as its new chief executive.

Mr Edward Gramlich, who oversaw the Millennium & Copthorne flotation last year, announced his plans to step down as chief executive three months ago.

The UK company said he wanted to return to the US to spend more time with his Boston-based family.

Mr Wilson's departure from Ladbrooke, which owns Hilton International, was

announced last week. Neither Ladbrooke nor Millennium & Copthorne would comment further yesterday.

Millennium & Copthorne said in March it would look for "someone to drive the organic growth more".

The company had grown rapidly through acquisition, but now believes that prices for hotels in London and New York are looking "stiff".

Mr Wilson, 55, has spent 25 years at Hilton. He was made chief operating officer in charge of running Ladbrooke's 162 Hilton hotels six years ago. It reported maiden 1996 pre-tax profits of £38.5m, up from £24m on turnover of £175.5m.

Granada sells Brown's for £45m

By Raymond Snoddy

Granada has lifted the total raised from the disposal of Exclusive hotels following the Forte acquisition to more than £245m (£733m) with the announcement yesterday of the sale of Brown's Hotel in London for £45m (£73.4m) cash.

The hotel, much beloved by visiting Americans, is being bought by Raffles Holdings of Singapore, a subsidiary of DBS Land.

Granada said the sale price represented a premium

to book value of £5.6m. Brown's is the eighth of the 17 Exclusive hotels to be sold; they were bought as part of last year's hostile £235m take-over of Forte.

In the 12 months to the end of March this year, Brown's had an operating profit of £3.9m on a £10.7m turnover and net assets of £3.4m.

The last Exclusive hotel sales were in March, when the Plaza Athenee hotels in Paris and New York were sold for a total £97.5m.

Granada has taken a prag-

matic line on what was for sale under the disposal programme and what was not.

To begin with, all the Exclusive hotels were intended for sale, but then Granada decided to keep any which did not attract high enough bids.

When offers for the flagship Grosvenor House in London fell short of the asking price of between £250m and £400m Granada decided to hold on.

The next Exclusive hotel to be sold could be The Ritz in Madrid.



Garf Collins: most of the £10m expected proceeds will go to directors and employees

## AIT float tag up to £25m

By Paul Taylor

AIT Group, a UK software company specialising in systems for retail financial services organisations, is coming to market via a placing expected to value it at between £20m and £25m (£40m).

Most of the £10m expected proceeds will go to directors and employees, who are selling part of their stakes. The management team includes

Mr Garf Collins, chairman, and Mr Richard Hicks, managing director and founder.

The £2m in new funds will enable the group to undertake larger projects and finance new facilities.

A prospectus to be published this week is expected to show pre-tax profits in the year to March 31 increased to £1.6m (£1.1m) on revenues of £10.7m (£7.5m).

AIT, which was founded

By Charlie Gresser

HTEC, the UK concern that develops software and hardware for loyalty card promotions, is coming to market via a placing of shares that is expected to value

the group at up to £22m (£35m).

The flotation, scheduled for next month, will raise up to £10m, of which £7m will

be used to redeem preference shares and the balance for capital expenditure.

The eleven-strong management team holds 22 per cent of the preference shares and will receive £1.5m for their stake.

The management also holds 51 per cent of the ordinary shares. The rest is held by venture capitalists 3i and Gresham Trust.

## Together on a steady course



### We come up trumps for you.

As the central bank of the cooperative banks in Rhineland and Westphalia, we combine service and know-how and consolidate links with national and international markets.

Expertise and experience from which our business clients also profit directly.

Our strong points, high-quality consulting, flexibility

and innovation, are the trumps

it is our pleasure to play for you.

**WGZ-Bank**

MEMBER OF THE GENO Düsseldorf - Koblenz - Münster - Potsdam - Amsterdam - Dublin - Louvain - Luxembourg  
GROUP GERMANY Singapore - Zurich

Total assets DM 47.8 million

Accounts receivable DM 38.2 million

Accounts payable DM 33.9 million

Shareholders' equity DM 2.7 billion

Business volume WGZ-Bank Group DM 61.1 billion



If the rainforest are being destroyed at the rate of thousands of trees a minute, how can planting just a handful of seedlings make a difference?

A WWF - World Wide Fund For Nature tree nursery addresses some of the problems facing people that can force them to chop down trees.

The villagers of Mugunga, Zaire, for example, eat papaya and mangoes from WWF trees. And rather than having to sell timber to buy other food, they can now sell the surplus fruit their nursery produces.

Where trees are chopped down for firewood, WWF and the local people can protect them by planting fast-growing varieties to form a renewable fuel source.

This is particularly valuable in the Impenetrable Forest, Uganda, where indigenous hardwoods take two hundred years to mature. The Markhamia lutea trees planted by WWF and local villages can be harvested within five or six years of planting.

Where trees are chopped down to be used for construction, as in Panama and Pakistan, we supply other species that are fast-growing and easily replaced.

These tree nurseries are just part of the work we do with the people of the tropical forests.

WWF sponsors students from developing countries on an agroforestry course at UPAZ University in Costa Rica, where WWF provides technical advice on growing vegetable and grain crops.

Unless help is given, soil is exhausted very quickly by "slash and burn" farming methods.

New tracts of tropical forest would then have to be cleared every two or three years.

This unnecessary destruction can be prevented by combining modern techniques with traditional practices so that the same plot of land can be used to produce crops over and over again.

In La Planda, Colombia, our experimental farm demonstrates how these techniques can be used to grow a family's food on a small four hectare plot. (Instead of clearing the usual ten hectares of forest.)

WWF fieldworkers are now involved in over 100 tropical forest projects in 45 countries around the world.

The idea behind all of this work is that the use of natural resources should be sustainable.

WWF is calling for the rate of deforestation in the tropics to be halved by 1995, and for there to be no net deforestation by the end of the century.

Write to the Membership Officer at the address below to find out how you can help us ensure that this generation does not continue to steal nature's capital from the next. It could be with a donation, or, appropriately enough, a legacy.



WWF World Wide Fund For Nature  
(Formerly World Wildlife Fund)

International Secretariat, 119 Gland, Switzerland.

**FOR THE SAKE OF THE CHILDREN WE GAVE THEM A NURSERY.**

Johanna

agecoach  
by bid for  
Z bus group

## COMPANIES AND FINANCE

## INTERNATIONAL NEWS DIGEST

## Book-building starts for OTE

Book-building will start today for the Dr270bn-320bn (\$361m-\$416bn) issue of 10-12 per cent of OTE in the second tranche of Greece's partial privatisation of its telecoms operator. The challenge for the global co-ordinators - National Bank of Greece, Salomon Brothers and HSBC - is to keep alive the interest of international institutions following a rapid rise in OTE's share price on the Athens stock exchange.

OTE shares have featured prominently in a bull run that pushed the index to record levels last month. The share closed at Dr6.985 on Friday, down from the record Dr7.770 reached earlier in the week but still considerably higher than the Dr6,000-6,300 price range envisaged when the offering was being structured three weeks ago.

The share price is being driven by small investors keen to participate in a six-for-80 rights issue later this month. The issue will be restricted to old shareholders and will be sold at a 16 per cent discount to the secondary offering price. The stock is trading at a price/earnings ratio of 16.5 and the consensus among analysts is that OTE's earnings will grow at 16-20 per cent over the next three years.

Greek banks that will underwrite the domestic tranche have reported strong interest among retail investors ahead of the official pre-registration period later this week. State-owned Ionian Bank has already announced a special loan facility for customers ordering OTE shares.

Kerin Hope, Athens

## Threat to merger recedes

Prospects for Mr Kjell Inge Rokke, the Norwegian entrepreneur, to block the planned merger of Storebrand, Norway's largest insurer, and Christiansen, the country's second-largest bank, appear to have receded after Aker GCI, the industrial group Mr Rokke controls, sold most of its 6 per cent stake in Storebrand.

The sale was prompted by a ruling by Norway's financial supervisory authority which lumped Aker's stake with that of Mr Rokke, who has a 10 per cent holding in Storebrand. Under Norwegian rules, a single shareholder cannot hold more than a 10 per cent stake in a financial institution.

Aker said this forced it to dispose of its shares, but it had purchased a buy-back option in the event that its appeal to the finance ministry against the supervisory authority's ruling succeeds. It sold 21m preference shares on Friday for Nkr13.30 per share, reducing its stake to below 1 per cent. Mr Rokke is believed to object to the Storebrand-Christiansen merger but has not stated if he intends to try and block it.

Greg McIngvil, Stockholm

## Kone falls into the red

Kone of Finland, the world's third-largest lift and escalator producer, veered into the red in the first four months of 1997 as "exceptionally poor" price levels took a heavy toll on margins. Kone incurred a FM115m (\$3.65m) pre-tax loss, compared with a FM17m profit a year earlier, in spite of an increase in turnover from FM350m to FM3.4bn. It said it expected no growth in the European market for new lifts and price levels would not improve. In the US, however, order volume and profitability were continuing to develop favourably. Full-year profits would be "only somewhat" higher than the FM124m of last year.

Kone said newly-introduced products and a production reorganisation came too late to affect interim profits. It stressed that profitability of orders received had begun to improve. Orders, exclusive of lift maintenance business, rose from FM2.6bn to FM2.8bn, lifting the order book from FM7.2bn to FM8.4bn. The operating loss was FM19m, compared with a FM18m profit last time.

Greg McIngvil

## SGL Carbon shares slip

SGL Carbon, the world's biggest producer of carbon and graphite products and lately the darling of the German stock market, has become embroiled in a price-fixing probe, prompting a sharp fall in its shares on Friday before they recovered slightly.

US and European authorities have launched an investigation into allegations of anti-competitive practices, including price fixing, in the graphite electrode industry. SGL Carbon and other rivals in the US and elsewhere, have been investigated. SGL Carbon, which was spun off from Hoechst, the chemicals group, last year, denied there were any concrete allegations against it.

Graham Bonney, Frankfurt

## Telefónica in deal on Tisa

Telefónica has secured a compromise agreement with the Spanish government that will allow it to secure outright ownership of its subsidiary Tisa, the main foreign operator in Latin America, which is 24 per cent state-owned. The telecoms group wanted a straight acquisition of the Tisa equity it did not own, while the government, hoping to realise greater income from the disposal, planned to sell its stake through a competitive tender. Under the compromise, Telefónica is likely to be the sole prospective buyer in the tender, which is scheduled for next month, because the government has agreed to let the telecoms group match the highest bid made for the Tisa shares.

Telefónica is anxious to complete the Tisa purchase because its profitable subsidiary was at the centre of a strategic agreement it signed in April with Concert, the alliance of British Telecommunications and MCI of the US. Telefónica plans to sell some 10 per cent of Tisa to MCI and to take a 33 per cent stake in Avantel, a carrier in Mexico that controlled by the US operator.

Tom Burns, Madrid

## Spanish gas group expands

Gas Natural Latinoamericana of Spain has won control of the most important Colombian gas distribution company, Gas Natural. The sale of just over 50 per cent of Gas Natural's shares by Ecopetrol, the Colombian petroleum company, brought in \$160m, about three times as much as had been expected.

Sarah Kendall, Bogota

## FT/S&amp;P World Indices

The committee that oversees the FT/S&P Actuaries World Indices has decided to alter the timing of quarterly changes in constituents. Changes in stocks, which until now have taken place at the end of each quarter, will in future occur at the end of the month after the quarter end. This will help fund managers avoid making constituent changes at times of reduced market liquidity, such as around new year.

The new policy, agreed at a quarterly meeting in New York last week, will occur from the quarter ending in September, with constituent changes taking effect in October. The meeting also agreed to constituent changes covering stocks in Austria, Belgium, Canada, France, Italy, Spain, Switzerland, Thailand and the UK.

Details from FTSE International in London on 44 (0)171 448 1810. Web site: <http://www.ftse.com>

## Bank Austria to raise Sch3bn

By William Hall in Zurich

Bank Austria's preference shares fell more than 5 per cent on Friday after the company announced it was issuing Sch3bn (\$245.5m) of new shares at a record low price of Sch75c each and at a steep discount to the group's book value.

Bank Austria's preference share issue, to help pay for its Sch17.2bn acquisition of Creditanstalt, Austria's second-biggest bank, has been hit by accusations about its level of disclosure to the international investment community.

The accusations come at a sensitive time for the bank, as its two biggest shareholders - the Austrian government and AVZ, a foundation controlled by the city of Vienna -

want to sell large stakes. Fetching the best price depends on encouraging international investors to participate in the share offerings.

Bank Austria's relations with the international investment community have been marred by poor communications and the erratic disclosure of sensitive information. The latest row centres on a little publicised 1995 deal where Germany's Westdeutsche Landesbank bought a 10 per cent stake in Bank Austria.

It emerged last week that the deal also included the first right of refusal to buy a further substantial stake in Bank Austria through the Austrian affiliate of a state-owned German bank.

WestLB is believed to have paid Sch790 per Bank Austria ordinary share, a premium of roughly two

thirds to the much more widely traded preference share.

The details of its right to buy AVZ's shares were disclosed in the small print of a prospectus but most stock market analysts were not aware of the share purchase option until it was published by Austria's opposition parties last week.

Bank Austria's attempt to sell itself to the international investment community as an independent European regional bank with a good restructuring story will be damaged if it emerges that it could end up as the Austrian affiliate of a state-owned German bank.

Sources close to Bank Austria stress that WestLB's right of first refusal on the AVZ shares was designed to protect its position in

joint ventures rather than give it ultimate control of Bank Austria.

Bank Austria is more than doubling the number of preference shares in issue by selling 8m shares at a discount of 10 per cent to Thursday's closing price of Sch116. Shareholders will be offered seven new preference shares for every 57 held.

Based on analysts' expectations, the shares are being issued at nine times 1997 earnings and a discount of 15 per cent to book value. Bank Austria's preference shares, which reached a high of Sch560 in 1993, fell Sch22.5 to Sch33.5 on Friday.

The Austrian government had hoped that the sale of Creditanstalt to its biggest competitor would end the political haggling over the future of Austria's two biggest banks.

## Belgrade cancels telecoms signing

By Guy Dimmore in Belgrade

The Serbian government yesterday called off the signing of an agreement to sell a combined 49 per cent stake in state-owned Telecom Serbia to Italy's Stet group and OTE, Greece's state-controlled telecommunications operator.

No official explanation was given for the last-minute cancellation of the signing ceremony.

A participant in the talks said "technical" details had held up an agreement. "Things will be on track fairly shortly. It's nothing momentous," he said. One diplomat said the deal could be signed today.

Serbian officials have kept silent during months of talks with Stet and, more recently, with OTE. A Greek official said last week that OTE would take a 20 per cent holding in Telecom Serbia and Stet would buy a 29 per cent stake, for a total of DM1.57bn (\$900m).

The deal would mark the largest sale of Serbian state assets in a faltering privatisation programme.

## US online grocery store to go public

By Jane Martinson  
In New York

Peapod, the online-grocery store and delivery service, is expected to go public this week with an estimated value of up to US\$244.8m.

The group will join a small but rapidly growing band of Internet retailers to list on the US stock market. It is also one of a series of high-profile listings which have lifted a relatively quiet

market for initial public

offerings this year.

Its performance will be particularly closely watched after Amazon.com, the online book store, listed on the technology-driven Nasdaq composite index a month ago. After an impressive start, the company has traded below its offer price.

Peapod is to issue 3.6m new shares on Nasdaq at between \$13 and \$15 a share.

The top price will value the Illinois-based company at US\$244.8m. The group,

which was set up by two brothers in 1996, made a net loss of \$2.57m last year on revenues of \$28.17m.

The founders, Mr Andrew Parkinson and Mr Thomas Parkinson, now senior group chief executives, will retain 20.4 per cent of Peapod after the IPO - a stake valued at about \$49m. Several venture capital groups will retain shares in the company. WPP, the advertising group, also owns a stake.

Mr Dan Rabinowitz, direc-

tor of finance, said that after two weeks of meetings with potential institutional investors, the IPO is "likely to happen" this week. The roadshow is set to end in Boston tomorrow.

Peapod had 43,000 members based in six US cities at the end of March. Membership has more than tripled since January. Of the cities in which the group operates - Chicago, San Francisco, Columbus, Boston, Houston and Atlanta - four have

opened since last September.

It estimates that its service area encompasses 5 per cent of US households. Peapod intends to use the deal's net proceeds - some \$45.7m - for working capital and expansion into new markets.

Several analysts said last week that the performance of Amazon.com was unlikely to dent enthusiasm for Peapod. Mr Ryan Jacob, of IPO Value Monitor, said: "I would expect Peapod to do quite well."

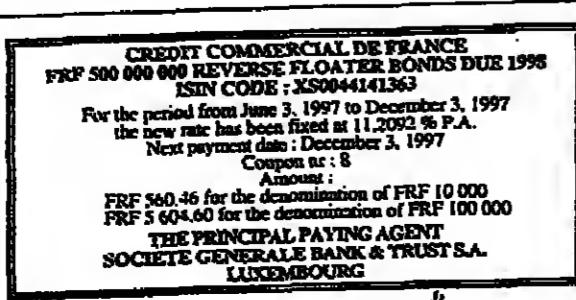
|  |   |
|--|---|
| <b>ALBERT-CALVERT COMPANY</b><br>Acquisition of St. Ives Laboratories Co.<br>\$120 million | <b>ALDO HOLDINGS, INC.</b><br>Sale to Warwick Corporation   |
| <b>ALEVE</b><br>Valuation opinion to<br>The Procter & Gamble Company<br>and Roche Holdings | <b>AMERICA'S BOARDING HOUSES</b><br>Acquisition of Spalding & Evans   |
| <b>CARSON, INC.</b><br>\$59 million IPO  | <b>NU SKIN ASIA PACIFIC, INC.</b><br>\$236 million IPO  |
| <b>CLARINS S.A.</b><br>\$162 million LYON™ Offering  | <b>KENNETH CLARK CORPORATION</b><br>Sale of certain tissue mills and license<br>of Sanois facial tissue brand |
| <b>THE COLGATE-PALMOLIVE COMPANY</b><br>Medium Term Notes                                  | <b>RAYOVAC CORPORATION</b><br>Recapitalization with<br>The Thomas H. Lee Company<br>\$327 million             |
| <b>ESTEE LAUDER COMPANIES INC.</b><br>\$458 million<br>\$379 million Secondary             | <b>REVLON, INC.</b><br>\$180 million IPO  |
| <b>THE GILLETTE COMPANY</b><br>Acquisition of Duracell<br>\$7 billion                      | <b>AMOCORE CORPORATION</b><br>\$360 million Secondary   |
| <b>HENKEL KGaA</b><br>Acquisition of<br>Novamax Technologies<br>\$187 million              | <b>THE DODGE</b><br>\$89 million IPO  |
| <b>THE THOMPSON-MINER COMPANY</b><br>Sale to The Sherwin-Williams Company<br>\$850 million | <b>MERRILL LYNCH</b><br>A tradition of trust  |

Merrill Lynch  
on maximizing the value  
of consumer brands.

Understanding the power of consumer brands is key to maximizing their global potential. Which explains why Merrill Lynch is the leading advisor and underwriter for the consumer products industry. With a full range of integrated capabilities, our Global Consumer Products Group has completed more transactions for the sector than any other firm. Our consumer products research team, headed by Deepak , the leading consumer products analyst, affords us a unique understanding of the industry that gives our clients a truly global perspective. Superior capabilities make a difference. The difference is Merrill Lynch.

**Merrill Lynch**  
A tradition of trust.

© 1997 Merrill Lynch & Co. Issued and approved by Merrill Lynch International. Reprinted by the Securities and Futures Authority Limited.



The Financial Times plans to publish a Survey on

# Private Finance Initiative

on Friday, July 4

For further information,  
please contact:

Derek van Tienen or Sally Beynon on

Tel: +44 (0) 1223 833 300

Fax: +44 (0) 1223 833 332

or your usual Financial Times representative

FT Surveys

## EAST EUROPEAN BUSINESS LAW

Whether you already operate in Eastern Europe and need to know how new laws affect your business, or you are considering starting a business there and need to weigh up the pros and cons of setting up, you need to subscribe to East European Business Law.

Every month, East European Business Law provides coverage and analysis of:

- New legislation • Court decisions
- Rulings by administrative/regulatory bodies
- Law reform measures • International agreements
- General legal news • The range of legal services

To receive a FREE sample copy, contact:  
FT Financial Publishing, Maple House,  
149 Tottenham Court Road, London W1P 9LL, UK  
Telephone: +44 (0) 171 896 2286  
Fax: +44 (0) 171 896 2319



FINANCIAL TIMES  
Financial Publishing

This advertisement is issued in compliance with the requirements of the London Stock Exchange. It does not constitute an invitation to the public to subscribe for or purchase any securities. Application has been made to the London Stock Exchange for the whole of the ordinary share capital of Viglen Technology plc (the "Company") to be admitted to the Official List. Provided that the Scheme described in the documents sent to shareholders on 6th June, 1997 becomes effective, it is expected that admission to the Official List will become effective and that dealings in the ordinary shares of 10p each of the Company will commence on 4th August, 1997.

### Viglen Technology plc

(Incorporated in England and Wales under the Companies Act 1985, Registered No. 3537875)

Introduction sponsored by

### Deutsche Morgan Grenfell

of up to 122,285,668 ordinary shares of 10p each

Provided that the Scheme described in the documents sent to shareholders on 6th June, 1997 becomes effective, Viglen Technology plc will be the holding company for Viglen Limited and Amstrad plc.

Share capital immediately following the Introduction

| Authorised  | Number      | Amount                      | Expected maximum issued share capital |
|-------------|-------------|-----------------------------|---------------------------------------|
| 176,000,000 | 127,600,000 | ordinary shares of 10p each | 122,285,668 £12,285,668               |
| Number      | Amount      | Number                      | Amount                                |
| 122,285,668 | £12,285,668 | 122,285,668                 | £12,285,668                           |

Listing particulars were published on 6th June, 1997 and copies are available during normal business hours on any business day from the Company Announcements Office, London Stock Exchange Tower, Capel Court, Euston, off Bartholomew Lane, London EC2C, for collection only, up to and including 10th June, 1997 and during normal business hours on any business day up to and including 23rd June, 1997 from:

Viglen Technology plc  
Viglen House  
Alerton Lane, Alerton  
Middlesex HA0 1DX

Morgan Grenfell & Co. Limited  
(Deutsche Morgan Grenfell)  
6 Bishopsgate  
London EC2N 4DA

HSBC James Capel  
Thames Exchange  
10 Queen Street Place  
London EC4R 1BL

9th June, 1997

### FAR EASTERN TEXTILE LTD.

(Incorporated as a company limited by shares in Taiwan, Republic of China)

US\$50,000,000

4 per cent. Bonds due 2006

NOTICE IS HEREBY GIVEN that the declaration of NT\$0.2 per share of cash dividends for the Company, and the ex-dividend record date is on June 18, 1997. Payment to 3(A)(a) of the Terms and Conditions of the Offering Circular, the Conversion Right of the Bonds will be suspended for five days prior to and including the Date of Ex-Dividend Record Date. The Suspended Period runs from June 14 to June 18, 1997.

9 June, 1997, London  
By CIBA, N.A. Corporate Agency & Trust, Agent Bank

CITIBANK

To advertise

Your Legal Notices

Please contact

Melanie Miles on

Tel: +44 0171 873 3249

Fax: +44 0171 873 3064

## COMPANIES AND FINANCE

# Promoting the top line at ABB

New chief executive aims to inject greater commercial energy into the group

If Mr Goran Lindahl, the new chief executive of ABB, the Swiss/Swedish engineering group, is daunted by the challenge of following in the footsteps of Mr Percy Barnevik, his highly regarded predecessor, he does not show it.

"Percy Barnevik has done a fantastic job," he says. "And my ambition is to build an even better company."

Mr Lindahl, who is 52, says he plans to impose his own personality on ABB just as Mr Barnevik did during his nine years at the helm. He takes over after a long career in engineering marketing, which culminated last year in the signing of the contract for the US\$3bn Bakun hydro-electric scheme in Malaysia, ABB's biggest ever order.

Unlike Mr Barnevik, an economist by training who was marked out for high office at an early age and will stay on as non-executive chairman, Mr Lindahl has had to work his way up to the boardroom.

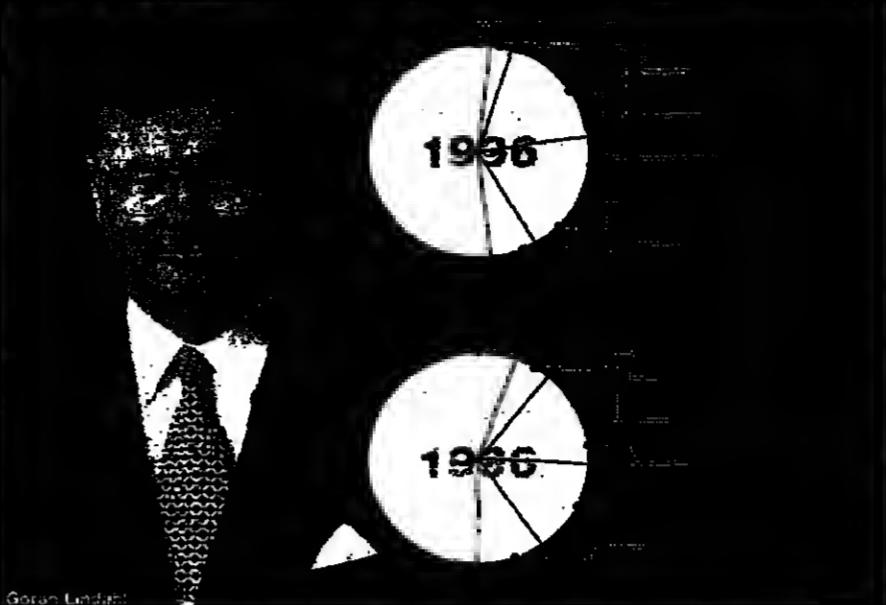
Where Mr Barnevik tends to dominate those around him through sheer force of intellect, Mr Lindahl is more down to earth and more of a team player.

Mr Barnevik, who formed ABB out of a merger of Sweden's Asea and Brown Boveri of Switzerland in 1988, spent much of his time shaping the unified company - closing excess capacity, building a managerial and financial structure and expanding its reach outside western Europe.

Mr Lindahl seems to see his job as putting more commercial energy into this formidable machine. Where Mr Barnevik put much emphasis on long-range planning, Mr Lindahl is more concerned about bringing home the bacon.

"My priority is to promote the top line. Then, the bottom line will also grow. Sell, sell, sell," he says.

### ABB: extending the global reach



But the two men also have much in common. Neither is a stranger to the constant international travel which is required at a company with 215,000 employees in 1,000 subsidiaries in over 140 countries.

Both are Swedish and both have spent most of their working lives with companies linked to the Wallenberg family, which controls 16 per cent of ABB, the single biggest stake.

Time will tell whether Mr Lindahl can emerge from Mr Barnevik's shadow. His first real test may not come until next year, when ABB's profits are expected to start growing again as a result of economic recovery in Germany. If they do not, investors could demand changes in direction.

Mr Pierre Tissot, analyst at Lombard Odier, the Geneva bank, says: "It is too early to notice any changes in strategy, but there are differences in style. Barnevik stressed the long-term perspective and focused on macroeconomic factors. Lindahl, by contrast, is more down to earth and focused on our needs."

Although Mr Lindahl shares Mr Barnevik's view that the company's future growth will come mainly from emerging economies, there is a slight change in emphasis.

Where Mr Barnevik spoke repeatedly about the importance of eastern Europe, the former Soviet Union, and east Asia, Mr Lindahl puts Latin America at the top of his list for growth markets, though he adds that Asia remains very important.

Mr Lindahl has fixed targets for ABB's margins, which have been under pressure in recent years because of competition from other international companies including Germany's Siemens and GE of the US. The difficulties are particularly acute in power engineering, where margins have been squeezed by overcapacity.

Mr Lindahl declines to say what his margin targets are, but he wants to see a substantial improvement on last year, when operating profits amounted to just 8.8 per cent of sales. However, with a return on equity of 22.2 per cent, the shareholders would not, for the moment at least, have cause for complaint.

Mr Lindahl expects to see growth across all the company's activities, including power generation, electricity transmission and distribution, industrial plants and buildings and financial services. "Of course, some will grow more, some less," he says.

In developed countries, where large new industrial investments are rare, he expects to see growth from service and renovation contracts. There are also good prospects in fields where new technology is being introduced - for example in electricity metering and distribution equipment.

In the developing world, the oil, gas, and petrochemical industries are placing substantial orders, such as the \$500m contract for India's first private-sector oil refinery at Jamnagar.

Mr Lindahl is acutely aware of the concern such big schemes generate among environmentalists, not least because of the criticisms made by pressure groups of the Bakun project. But he says that abstaining from economic development "is not a solution". For example, the availability of electricity is a basic need for people all over the world.

However, companies such as ABB have a responsibility to meet high environmental standards with their products, wherever they are supplied, says Mr Lindahl. "Of course, we should not sell crap anywhere."

He also welcomes debate with environmental groups because "it forces people to sharpen their arguments. So we will find better solutions for processes and projects."

But he says ABB can only supply what its customers order. It cannot change the world on its own. "We can only do what's in our competence."

Stefan Wagstyl  
and Bill Hall

## BCP issue to finance bank stake

By Peter Wise in Lisbon

Banco Comercial Portugues, Portugal's second-largest bank, is to make a big international placement of subordinated debt to help finance an Es77bn (\$441m) acquisition that will increase its stake in Banco Portugues do Atlantico from 50.1 to 75.1 per cent.

The agreed purchase of 27.5m shares from Império, the insurer, could have been delayed for three years. It is seen as an indication that BCP's turnaround of BPA, a leading retail bank, is progressing more rapidly than expected.

BCP said the acquisition would not require a share capital increase. It would be made using available capital resources and through the issue of subordinated perpetual bonds, which count as Upper Tier Two capital for calculating the group's solvency ratio.

Analysts agreed the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

In partnership with the Mello group, which controls Império, BCP acquired BPA in 1986 to become Portugal's biggest private-sector financial group.

Analysts said the purchase was possible without a share capital increase, but said it was still likely to raise concern among investors that they might be asked to contribute more share capital. "BCP has a track record of fulfiling pledges not to raise capital to finance expansion," said a Lisbon analyst.

उभरती अर्थ-व्यवस्थाओं और  
पूजा बाजारों में माहिन है हम

ING BARINGS

FINANCIAL TIMES

## MARKETS

THIS WEEK

At Home in Emerging  
and Capital Markets

ING BARINGS

Global Investor / Peter Martin

## Corporate restructuring marks time

For the past few years, continental Europe's stock markets have benefited from investors' belief that big companies are restructuring themselves to give better value to shareholders. Does the swing in Europe's political mood indicate a threat to that?

The new French government is composed of people who bitterly attacked Renault's job cutbacks. Unemployment in Germany continues to rise, and the prospects of a Social Democrat victory in next year's elections grows more likely as the government bungles the Maastricht test. Even Britain's New Labour has been sounding suspiciously Old Labour at times in the past week.

As Morgan Stanley's Mr

David Roach has argued, workers who have seen the industrial balance of power tilted against them have only one recourse: through the ballot box. Though newly elected left of centre governments cannot stop the restructuring process, they can slow it down, and help mobilise opinion against it.

So, is restructuring now on hold? No, says Mr Gary Dugan of J.P. Morgan, because the crude job cutting phase of European restructuring is now largely over. "Slashing the workforce is a thing of the past," he says. "The type of restructuring we see now is the search for 'corporate clarity'." In this process, companies focus their investment on their core businesses, and spin off peripheral

activities. Shareholders claim greater control over the cash flows of the companies they own, limiting managers' discretion to spend on low return activities.

Still, in a number of countries, this type of restructuring requires the assistance of the state. And, though it may be less hurtful than job cuts, it may still fall victim to politics. For example, Germany has been planning a reform of corporate law which will give greater emphasis to shareholders and ease the distribution of capital, two steps which will accelerate the restructuring of big companies. But the proposal has been trapped in political wrangling in Bonn. It is easy to imagine that, in this process, companies will be victim to the new mood of the times and the coalition's struggle for survival.

It may also be overly optimistic to believe that the continent's need for measures which hurt the workforce - job cuts or reductions in the share of output going to labour - is past. Mr Richard Young of Goldman Sachs argues that a typical developed-economy company could produce a return on equity of between 50 per cent and 60 per cent by moving its production to emerging economies.

That is a crude figure; it needs to be adjusted to allow for higher transport costs and political risk. Still, when you consider that German manufacturing businesses are currently achieving a return on equity of less than 10 per cent, the scope for gains in profitability by

shifting production abroad is clear. The long term implications for the German workforce, in job losses or reduction in the share of national income, are also clear.

In the short run, however, the European mood indicates a deep desire to delay that adjustment. And there is scope for a momentary pause, as economic growth picks up in both France and Germany. Restructuring was accelerated, in both countries, by the pressures of a strong currency. In recent months, that has been eased by the rise in the dollar. Now there is an increasing likelihood that the problems of the Maastricht convergence process will usher in a weak euro. If companies no longer feel the same currency threat, restructuring

may become less urgent. If that immediate threat eases, the psychological factor comes into play: just how much management enthusiasm for the restructuring process do continental companies really possess? The domestic political climate affects bosses as well as workers. As the mood shifts, perhaps companies will do as little restructuring as they can get away with?

Mr Dugan believes that European shareholders are following the lead of their US equivalents, and claiming greater control over the cash flows of the businesses they own. If that is so, then whether managers' preferences, they will have no choice but to continue the restructuring process.

Still, it would not be sur-

## COMPANY PROFILE: Raisio

Strong advance  
expected  
at Raisio

Raisio Group, the Finnish food processor and chemicals group which has invented a "magic margarine" that reduces cholesterol levels in the body, is expected on Thursday to report profit after financial items in the range of FMS80m (\$15.4m) for the four months to April, up from FMS3.8m a year earlier.

While the bulk of both sales revenue and operating profit stems from the group's established operations - chemicals for the forestry industry, foodstuffs and animal feeds - observers will be mainly interested in any

new developments in the cholesterol-cutting Benecol margarine.

But the Benecol discovery - which sent Raisio's share price rocketing ahead amid expectations of tremendous growth potential - is not yet expected to break even, and some investors could be inclined to sell the stock if the earnings report fails to contain new indications of concrete steps to develop and market the product.

AFX-News, Helsinki

■ Kemira Oy, a large Finnish chemicals group, is expected today to report profit after financial items in the range of FM290-420m (\$61m) for the four months to April, compared with FM477m a year earlier.

The relatively wide range of forecasts is mainly due to uncertainty over when certain items will be booked during the year, especially

regarding the timing of deliveries by Kemira Agro, the agricultural division, analysts said.

The analyst providing the lowest estimate of FM290m said his calculation was based on the assumption that many of Kemira Agro's deliveries which were intended to take place in the first four months of the year have been shifted to the second half.

The results are expected to confirm the company's warning in April that Kemira Agro's weak sales growth and tight price competition in Central Europe pushed profits significantly lower.

AFX-News, Helsinki

■ Royal Ahold, a Dutch supermarket chain, is expected to report on Wednesday first quarter net profit up at between FM122-255m (\$16m) from FM13.8m a year earlier.

Mr Nils van Elzelingen, an

analyst at NIB Securities, noted that the figures were strongly influenced by acquisitions, adding 30 per cent to sales, while Ahold's expansion in Asia is estimated to result in a negative contribution to operating profit of FM1.10m.

Mr Van Elzelingen said

higher efficiencies, expansion in fast-growing markets and positive currency translation effects would be the main driving forces behind earnings growth.

■ After Dairy Crest last week, the other leading dairy companies are reporting annual profits this week: Unigate today and Northern Foods tomorrow, with Robert Wieeman and Milk Marque on Wednesday.

■ BAA, the airports group, announces full-year results today with pre-tax profits

expected to be £405m, up

(\$660m) compared with £418m last time. The fall is the result of the group's announcement in April that profits would be reduced by £5m because of a change in accounting policy. The group will no longer be capitalising interest on the proposed Heathrow fifth terminal until planning permission has been received. The group is likely to be questioned about how long it expects the inquiry to delay much-needed expansion at Heathrow.

■ After Dairy Crest last week, the other leading dairy companies are reporting annual profits this week: Unigate today and Northern Foods tomorrow, with Robert Wieeman and Milk Marque on Wednesday.

■ Unigate has been tough in the commodity dairy products business, but Unigate is

for lower profit there with improvements in its fresh food, bacon and distribution activities.

Disposals have generated enough cash to turn interest payable into receivable, and pre-tax profits are expected to rise from £118.8m to £122.1m (£19m) after acceptance.

Similarly, Northern Foods will see dairy profits down by perhaps £15m, offset by a strong performance from prepared foods. Overall profits are expected to edge up from £124.2m to £127m (£207m), before a small exceptional credit. Both are due to raise their dividends by 4 or 5 per cent.

■ Granada Group, the television and leisure company, is expected to report on Wednesday underlying pre-tax profits of between £232m and £239m (\$390m) for the six months to March 31.

against £183m last time. The rise comes on the back of good television advertising revenue and strong trading in hotels.

The company is likely to turn the spotlight on its media activities by detailing plans for the division including pay television and programming strategy.

■ Hyder, the Welsh-based multi-utility is expected to report today a 28 per cent increase in pre-tax profit to £215m (\$350m) for the year ended March 31. It is also forecast to pay a net dividend up 14 per cent at 4p per share. As most of the sector unwinds dividend cover down towards twice covered, Hyder's cover will still remain closer to three times. The group has energetically pursued savings arising from its merger of Welsh Water with South Wales Electricity.

## INTERNATIONAL BONDS: FT/S&amp;P ACTUARIES WORLD INDICES

## Positive interest in convertibles

A flurry of convertible bond issuance in recent weeks has fuelled hopes that the sector might be undergoing a revival.

The two most prominent deals came from Japan and were issued by banking groups Sumitomo and Toyo. Both were denominated in yen - ¥100bn and ¥50bn respectively.

"Until last year, we used to see at least one major Japanese transaction every quarter," said a syndicate manager in London. "This supply dried up earlier this year when the Japanese bond market fell, but the mood has certainly turned more positive recently."

Bankers are predicting more deals in the near future, with Japan expected to continue leading the pack. "If you are a truly global investor, you have to have money in Japan," said one banker. "And bank deals are quite attractive."

Because banks account for a large part of the Topic share index, investing in equity-linked securities from the banking sector is seen as a good proxy for tracking the index itself.

Activity, however, is not limited to Japanese issuers. Europe has also seen its share of supply. Last week Swissair launched a deal in its domestic market. Earlier, British Land was active with a \$300m issue, as was AGF, the French insurer.

A large deal is soon expected from Telefónica, the Spanish telecoms company, for up to \$750m (\$460m).

An environment in which bond yields are falling and equities are rising is favourable for convertible bond issues," said an official at SBC Warburg, joint lead manager of the recent deal by Toyo Trust and Banking. Bankers also highlighted several factors supporting demand. Lack of supply in

the first quarter was one. Analysts at Goldman Sachs said supply during the first three months was just sufficient to cover redemptions of existing issues.

Another favourable factor was that during the 1996 equity rally, which has extended into this year, some convertible bonds have shown better performances than underlying shares.

Also, convertibles continue to be seen as the best defensive instruments for investors who feel that shares have risen too fast, but can not risk missing out should the rally continue.

This combination of bullish factors has allowed more innovations in the sector. These include special features such as mandatory conversion, through which the proceeds qualify as tier-1 capital for regulatory purposes, re-settable conversion prices, credit-enhanced issues and zero-coupon con-

vertible bonds.

In this favourable environment, bankers are optimistic that issuance will continue at a lively pace in coming months.

Japanese banks are expected to remain important in the market, as they reinforce their capital base, eroded in recent years by bad loans to the property sector.

In Europe, convertible bonds are increasingly seen as a convenient medium for privatisations.

"This is a sector where we will continue to see primary market activity in the next year or two," a continental European banker predicted.

However, most analysts agree that a strong correction in other financial markets could weigh on demand. The worst case scenario, one banker warned, would be a major bear market in bonds spilling over into equities... it would put an end to it all."

against £183m last time. The rise comes on the back of good television advertising revenue and strong trading in hotels.

The company is likely to turn the spotlight on its media activities by detailing plans for the division including pay television and programming strategy.

■ Hyder, the Welsh-based multi-utility is expected to report today a 28 per cent increase in pre-tax profit to £215m (\$350m) for the year ended March 31. It is also forecast to pay a net dividend up 14 per cent at 4p per share. As most of the sector unwinds dividend cover down towards twice covered, Hyder's cover will still remain closer to three times. The group has energetically pursued savings arising from its merger of Welsh Water with South Wales Electricity.

■ Unigate has been tough in the commodity dairy products business, but Unigate is

This announcement appears as a matter of record only.

January 1997

US\$ 160,000,000



**THE BRITISH LAND COMPANY PLC**  
ESTABLISHED IN 1956

## 7.35% Senior Notes due 2007

**SBC Warburg structured and arranged the private placement of these securities.**

**SBC Warburg**

SBC Warburg Inc.  
A Subsidiary of Swiss Bank Corporation

| FRIDAY JUNE 6 1997 |        |       |         |        |          |        |       |              |        |        |        |        |        |        |        |        |
|--------------------|--------|-------|---------|--------|----------|--------|-------|--------------|--------|--------|--------|--------|--------|--------|--------|--------|
|                    | Local  | Local | % Gross | US     | Local    | Local  | Local | DOLLAR INDEX | Year   |        |        |        |        |        |        |        |
|                    | Dollar | Pound | Yen     | DM     | Currency | Div.   | Index | Index        | Index  |        |        |        |        |        |        |        |
|                    | Index  | Index | Index   | Index  | Index    | Index  | Index | Index        | Index  |        |        |        |        |        |        |        |
| Australia (76)     | 231.53 | 4.5   | 210.03  | 188.84 | 208.10   | 202.74 | 8.1   | 3.80         | 222.17 | 202.07 | 188.82 | 208.68 | 202.98 | 234.37 | 188.44 | 198.22 |
| Austria (24)       | 185.41 | 2.9   | 178.03  | 142.50 | 175.64   | 175.57 | 1.5   | 1.98         | 195.63 | 177.95 | 142.92 | 175.84 | 175.78 | 202.02 | 174.70 | 194.94 |
| Belgium (26)       | 247.47 | 4.7   | 227.63  | 182.21 | 224.58   | 219.73 | 22.2  | 3.25         | 247.73 | 224.98 | 180.73 | 222.36 | 217.68 | 254.98 | 208.70 | 210.57 |
| Brazil (20)        | 268.33 | 4.21  | 246.55  | 186.55 | 242.26   | 242.26 | 46.7  | 1.35         | 268.48 | 240.75 | 183.37 | 237.91 | 222.72 | 265.99 | 182.85 | 187.03 |
| Canada (11)        | 208.15 | 10.2  | 190.58  | 152.54 | 198.02   | 208.67 | 11.3  | 1.98         | 208.05 | 190.02 | 182.57 | 187.93 | 208.28 | 208.45 | 154.12 | 188.81 |
| Denmark (32)       | 322.55 | 8.7   | 248.55  | 178.99 | 243.88   | 241.21 | 21.3  | 1.48         | 361.48 | 341.79 | 278.95 | 342.81 | 341.55 | 360.15 | 250.16 | 286.22 |
| Finland (26)       | 269.57 | 9.7   | 245.58  | 156.59 | 242.00   | 200.85 | 22.6  | 1.55         | 267.45 | 242.45 | 182.57 | 262.45 | 262.15 | 26     |        |        |

## MARKETS: This Week

## NEW YORK

Mixed signals from last Friday's US jobs report have left the market still unsure about the likelihood of a rise in interest rates at next month's Federal Open Market Committee meeting.

Although the markets opted for a benign interpretation of the data on Friday, lifting the Dow Jones Industrial Average to a record high, this was only after an initially jittery reaction.

The fall in the May unemployment rate and an upward revision in April payroll data implied that the economy is slightly stronger than was thought.

However, long-dated bonds may have little to fear from a rate rise, since the market "would be impressed by the Fed's willingness to tighten before the actual inflation statistics deteriorated," according to a report by Donaldson, Lufkin & Jenrette. DLJ expects 30-year Treasury bond yields to fluctuate between 6.5 per cent and 7 per cent for the rest of the year.

Among this week's data, there is little of note until the end of the week. May retail sales on Thursday are expected to show a rise of 0.5 per cent and producer prices on Friday a rise of 0.2 per cent, or 0.1 per cent excluding food and energy.

**COMMODITIES** By Gary Mead

## Rubber future looks bouncy

The world may be facing a long-term shortage of natural rubber and - viewed over the next couple of decades - the price for this basic commodity "is likely to perform better than prices of many other commodities," according to a study by Mr Prachaya Jumpsasit, chief economist with the International Rubber Study Group.

The key factor behind this bullish outlook is that the world's three major producing nations of this important commodity - Thailand, Indonesia and Malaysia - are three of the fastest industrialising economies.

This industrialisation implies a shift by the three nations from being predominantly natural rubber exporters to their retaining a

greater proportion of their production for domestic consumption. Hence there will probably be a "declining volume of rubber available for export to the world market".

The big question - how fast is the world likely to move into this shortage? - has yet to be answered. All that can be said is that demand is currently maintaining historical levels.

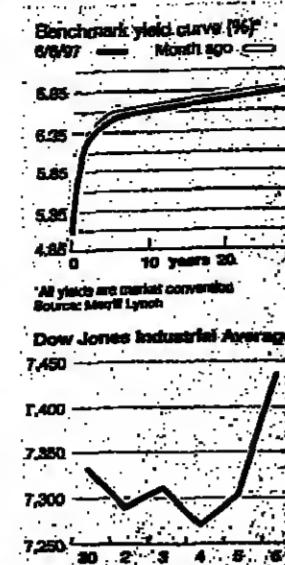
World demand for elastomer - encompassing both synthetic and natural rubber - has increased by an average of 3.6 per cent a year in the past 36 years, probably breaching 16m tonnes this year.

But there are factors that mitigate against the further development of futures markets and hedging operations

in the commodity. The globalisation of the tyre industry has slimmed the ranks of ultimate buyers and dealers, and the lack of a successful terminal market outside Japan has fuelled a relative decline in speculative interest in rubber.

The future for synthetic and natural rubber industries will be under the spotlight this week, when representatives from 18 of the 21 member governments of the International Rubber Study Group, formed in 1944 to provide a discussion forum for elastomers, attend the IRSG's annual meeting in Liverpool.

"World future trend of natural and synthetic rubber supply and demand, presented at Plast 97, Milan, May 8 1997."



According to DLJ, producer prices less food and energy have been flat since the start of the year, with little sign of inflationary pressures.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture. Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic picture.

Some analysts also expect the market to benefit from the strength of the dollar, following speculation that European monetary union is likely to be delayed.

Analysts will also be eyeing the June Michigan sentiment index for the latest changes in the economic

## MARKETS: This Week

## INTERNATIONAL BOND MARKET

# Investors give Brazil a vote of confidence

Mr Gustavo Franco, director of international affairs at Brazil's central bank, had every reason to sound pleased last week after the success of his country's 30-year global bond issue.

"This goes a long way towards overcoming the bad memories of Brazil's difficulties with its external debt in the past," he said. "It is another reason for the growing self-esteem felt today by Brazilians."

The offer will almost certainly improve conditions for future Brazilian issues. But concern over government failure to control public spending may stop spreads falling much further.

The deal is important because 76 per cent of the global bonds were swapped for Brady bond debt, the collateralised paper backed by US Treasuries issued in a series of distressed commercial loans in 1984.

The new bonds are uncured and the size of the offer - at \$3bn, three times bigger than many dealers had expected - was seen as a sign of investor confidence in the Brazilian economy.

It adds length and definition to the Brazilian yield curve and is likely to set a new benchmark for public and private borrowing.

This is excellent news for all future issuers," says Mr Paulo Henrique Rocha of investment bank Bozano Simonsen. "I haven't the slightest doubt that it will help lengthen Brazilian maturities."

If it does, it will continue a tentative process that started only recently. There is very little corporate Brazilian debt of longer than five years' maturity. Petrobras, the government-controlled petroleum group, recently launched 10-year paper and Sabesp, the São Paulo state water and sew-

age utility, is preparing an eight-year issue.

On the government side, last week's issue was a big initiative. Unlike its neighbour Argentina, which borrows heavily abroad and very little on domestic markets, and most other countries, which tend to balance the two, Brazil borrows almost entirely at home - and at some of the world's highest interest rates.

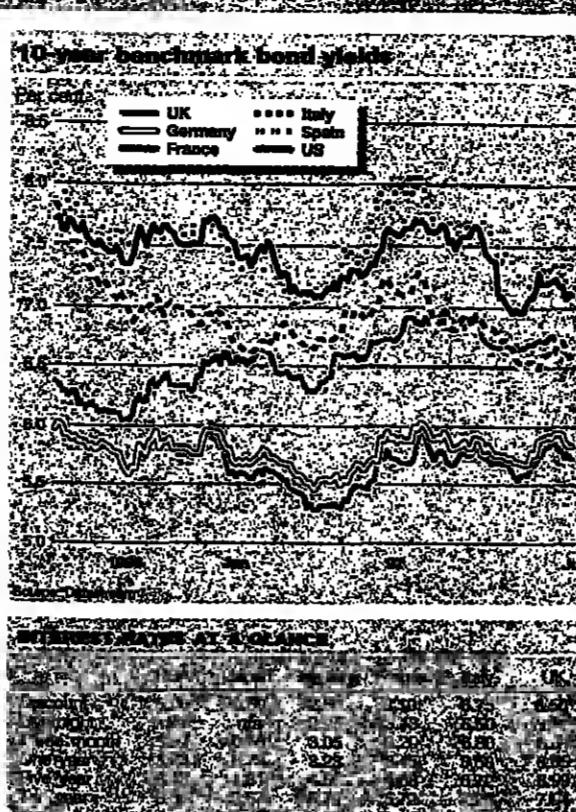
"The government seems content to finance itself on the domestic market by keeping maturities short and paying outrageous interest rates, which is very awkward and unusual behaviour," says Mr Arturo Porzecanski, Americas chief economist and head of fixed income research at ING Barings in New York. "So [last week's issue] is very good as a diversification tool, never mind as a benchmark."

Brady had been expected to make such a move for some time. The US Federal Reserve's decision not to raise interest rates on May 20 and public holidays the following week in Brazil and the US, gave it the opportunity it had been waiting for.

The deal was also helped by high liquidity on international bond markets, and by its price. The bond's spread of 35 basis points above US Treasuries brought strong interest not only from investors wishing to swap Brady, but also from cash buyers: the offer attracted cash of more than \$16bn for the \$350m allocated.

Analysts said the central bank had been more flexible on price than in recent issues, when it insisted on tighter spreads and attracted less interest from investors.

Opinions differ, however, on whether the big demand for the global bond will permit lower spreads on future issues.



"It's hard to say in the short term," says Mr Bozano Simonsen, "but in the long term spreads will tend to fall. This much interest in a 30-year bond is a strong indication of investors' long-term confidence in Brazil."

Others say confidence alone will not be enough.

"The success of future issues will depend on three factors: global liquidity, global interest rates, and domestic conditions in Brazil," says Mr Walter Molano, director of Latin American research at SBC Warburg in New York. "If there is a positive confluence of all three as there was this time, then yes, we could see another successful deal."

What worries some analysts is that the domestic outlook may soon deteriorate. Much hangs on the repercussions of a vote in the Senate last week, giving final approval to a constitutional amendment that will allow President Fernando Henrique Cardoso to run for a second term in elections to be held in October 1998.

On the one hand, the vote removes an issue that has clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

On the other hand, the vote removes an issue that has

clogged the political agenda for months and clears the way for more decisive government action to bring public spending under control.

On the other hand, it marks the beginning of the election campaign and may diminish the government's appetite for harsh measures.

Mr Porzecanski at ING Barings argues for caution.

He calculates that, with a current account deficit of at least \$30bn this year, \$20bn needed for amortisation of eurobonds issued mostly by banks in the past four years, and short-term debt of between \$40bn and \$60bn, Brazil has a minimum borrowing requirement of \$100bn a year to the end of the decade.

"Under present conditions,

with economic stability and plenty of global liquidity, this isn't a problem," says Mr Porzecanski.

"But if liquidity tightens,

or if the stock market peaks,

or if privatisation runs out

of steam, or if Congress gets stalled, then things will become very much more difficult," he adds. "That means trouble for Brazil's debt market."

## CURRENCIES AND MONEY

## POUND SPOT FORWARD AGAINST THE POUND

| Jan 6                    | Closing mid-point |         | Bid/offer |        | Buy/sell |         | Days' mid. |        | One month |        | Three months |        | One year |        | Bank of England Index |        |
|--------------------------|-------------------|---------|-----------|--------|----------|---------|------------|--------|-----------|--------|--------------|--------|----------|--------|-----------------------|--------|
|                          | Change on day     | on day  | sold      | bought | high     | low     | Rate       | % P.A. | Rate      | % P.A. | Rate         | % P.A. | Rate     | % P.A. | Rate                  | % P.A. |
| Europe                   |                   |         |           |        |          |         |            |        |           |        |              |        |          |        |                       |        |
| Austria                  | 80.021            | -0.0427 | 945       | -0.057 | 18,039   | 10,772  | 10,748     | 3.2    | 18,005    | 2.6    | 102.9        |        |          |        |                       |        |
| Belgium                  | 80.039            | -0.0427 | 945       | -0.057 | 50,420   | 57,775  | 57,759     | 3.2    | 57,569    | 3.2    | 102.8        |        |          |        |                       |        |
| Denmark                  | 90.043            | -0.0163 | 988       | -0.028 | 10,785   | 10,682  | 10,672     | 2.8    | 10,657    | 2.8    | 104.2        | 2.8    | 104.2    | 2.8    | 104.2                 | 2.8    |
| Finland                  | 90.046            | -0.0163 | 988       | -0.028 | 8,422    | 8,430   | 8,430      | 2.8    | 8,422     | 2.8    | 102.1        |        |          |        |                       |        |
| France                   | 90.047            | -0.0163 | 988       | -0.028 | 5,539    | 5,495   | 5,495      | 2.8    | 5,495     | 2.8    | 102.1        |        |          |        |                       |        |
| Germany                  | 90.048            | -0.0163 | 988       | -0.028 | 2,627    | 2,604   | 2,604      | 3.2    | 2,797     | 3.2    | 103.2        |        |          |        |                       |        |
| Greece                   | 90.049            | -0.0265 | 632       | -0.028 | 450,168  | 447,161 | 447,161    | 2.8    | 450,168   | 2.8    | 103.0        |        |          |        |                       |        |
| Ireland                  | 90.050            | -0.0268 | 646       | -0.028 | 1,1016   | 1,0942  | 1,0955     | -0.1   | 1,0945    | 0.3    | 1,0975       | 0.7    | 97.5     |        |                       |        |
| Italy                    | 90.051            | -0.0268 | 646       | -0.028 | 377      | 376     | 376        | -0.2   | 377,25    | 0.5    | 276,34       | 0.4    | 76.1     |        |                       |        |
| Luxembourg               | 90.052            | -0.0161 | 988       | -0.028 | 58,020   | 57,700  | 57,700     | 3.2    | 58,020    | 3.2    | 102.2        |        |          |        |                       |        |
| Netherlands              | 90.053            | -0.0163 | 988       | -0.028 | 3,164    | 3,164   | 3,164      | 2.8    | 3,164     | 2.8    | 102.2        |        |          |        |                       |        |
| Norway                   | 90.054            | -0.0163 | 988       | -0.028 | 11,728   | 11,654  | 11,654     | 3.1    | 11,574    | 2.1    | 11,580       | 0.7    | 97.4     |        |                       |        |
| Portugal                 | 90.055            | -0.0268 | 632       | -0.028 | 255,669  | 253,391 | 253,391    | 2.8    | 258,025   | 0.7    | 257,115      | 1.0    | 254,248  | 1.1    | 93.4                  |        |
| Spain                    | 90.056            | -0.0162 | 988       | -0.028 | 248,880  | 247,450 | 247,450    | 2.8    | 247,885   | 0.7    | 247,415      | 2.2    | 141.5    |        | 93.4                  |        |
| Sweden                   | 90.057            | -0.0268 | 632       | -0.028 | 12,658   | 12,657  | 12,657     | 2.0    | 12,658    | 2.0    | 12,657       | 2.1    | 83.5     |        | 93.4                  |        |
| Switzerland              | 90.058            | -0.0007 | 598       | -0.028 | 2,3750   | 2,3582  | 2,3517     | 4.8    | 2,3235    | 4.8    | 2,3248       | 4.8    | 104.8    |        | 93.4                  |        |
| UK                       | 90.059            | -0.0268 | 646       | -0.028 | 1,2149   | 1,2142  | 1,2142     | 2.2    | 1,2145    | 2.2    | 1,2145       | 2.3    | 99.5     |        | 93.4                  |        |
| Ecu                      | 90.060            | -0.0262 | 434       | -0.028 | 1,4619   | 1,4412  | 1,4412     | 2.2    | 1,4366    | 2.4    | 1,4065       | 2.5    | 90.5     |        | 93.4                  |        |
| SDR                      | 90.061            | -0.0268 | 632       | -0.028 | 271      | 1,3307  | 1,3307     | 0.8    | 1,3164    | 0.8    | 1,1916       | 0.7    | 102.0    |        | 93.4                  |        |
| Yuan                     | 90.062            | -0.0268 | 632       | -0.028 | 2,1518   | 2,1296  | 2,1296     | 2.1    | 2,1291    | 0.5    | 2,1201       | 0.6    | 90.5     |        | 93.4                  |        |
| Argentine                | 90.063            | -0.0042 | 261       | -0.028 | 1,6534   | 1,6194  | 1,6194     | -      | 1,6194    | -      | 1,6194       | -      | 90.5     |        | 93.4                  |        |
| Brazil                   | 90.064            | -0.0268 | 646       | -0.028 | 1,7510   | 1,7372  | 1,7372     | -      | 1,7372    | -      | 1,7372       | -      | 90.5     |        | 93.4                  |        |
| Canada                   | 90.065            | -0.0268 | 646       | -0.028 | 2,2262   | 2,2244  | 2,2244     | 3.2    | 2,2349    | 3.1    | 2,1932       | 2.6    | 94.4     |        | 93.4                  |        |
| Mexico (New Peso)        | 90.066            | -0.0054 | 038       | -0.028 | 15,1307  | 15,1307 | 15,1307    | -      | 15,1307   | -      | 15,1307      | -      | 90.5     |        | 93.4                  |        |
| USA (Dollar)             | 90.067            | -0.0034 | 038       | -0.028 | 17.374   | 17.374  | 17.374     | -      | 17.374    | -      | 17.374       | -      | 90.5     |        | 93.4                  |        |
| Other Middle East/Africa | 90.068            | -0.0268 | 632       | -0.028 | 1,6534   | 1,6194  | 1,6194     | -      | 1,6194    | -      | 1,6194       | -      | 90.5     |        | 93.4                  |        |
| Australia                | 90.069            | -0.0268 | 646       | -0.028 | 1,2149   | 1,2142  | 1,2142     | -      | 1,2145    | -      | 1,2145       | -      | 90.5     |        | 93.4                  |        |
| Hong Kong                | 90.070            | -0.0268 | 646       | -0.028 | 12,658   | 12,5420 | 12,5982    | 0.8    | 12,5985   | 0.8    | 12,5985      | 0.8    | 102.5    |        | 93.4                  |        |
| India                    | 90.071            | -0.0163 | 988       | -0.028 | 58,020   | 57,980  | 57,980     | -      | 57,980    | -      | 57,980       | -      | 90.5     |        | 93.4                  |        |
| Iraq                     | 90.072            | -0.0163 | 988       | -0.028 | 5,5978   | 5,5978  | 5,5978     | -      | 5,5978    | -      | 5,5978       | -      | 90.5     |        | 93.4                  |        |
| Japan                    | 90.073            | -0.0163 | 988       | -0.028 | 1,7510   | 1,7372  | 1,7372     | -      | 1,7372    | -      | 1,7372       | -      | 90.5     |        | 93.4                  |        |
| Korea                    | 90.074            | -0.0268 | 646       | -0.028 | 1,6534   | 1,6194  | 1,6194     | -      | 1,6194    | -      | 1,6194       | -      | 90.5     |        | 93.4                  |        |
| New Zealand              | 90.075            | -0.0268 | 646       | -0.028 | 1,7510   | 1,7372  | 1,7372     | -      | 1,7372    | -      | 1,7372       | -      | 90.5     |        | 93.4                  |        |
| Philippines              | 90.076            | -0.0268 | 646       | -0.028 | 2,2310   | 2,2317  | 2,2381     | 0.1    | 2,3661    | -0.1   | 2,3733       | -0.3   | 113.1    |        | 93.4                  |        |
| Saudi Arabia             | 90.077            | -0.0163 | 988       | -0.028 | 1,7510   | 1,7372  | 1,7372     | -      | 1,7372    | -      | 1,7372       | -      | 90.5     |        | 93.4                  |        |
| Singapore                | 90.078            | -0.0095 | 245       | -0.028 | 2,3285   | 2,3189  | 2,3189     | -      | 2,3189    | -      | 2,3189       | -      | 90.5     |        | 93.4                  |        |
| South Africa             | 90.079            | -0.0268 | 646       | -0.028 | 7,2300   | 7,2300  | 7,2300     | -      | 7,2300    | -      | 7,2300       | -      | 90.5     |        | 93.4                  |        |
| South Korea              | 90.080            | -0.0268 | 646       | -0.028 | 1,7510   | 1,7372  | 1,7372     | -      | 1,7372    | -      | 1,7372       | -      | 90.5     |        | 93.4                  |        |
| Thailand                 | 90.081            | -0.0268 | 646       | -0.028 | 45,5770  | 45,5770 | 45,5770    | -      | 45,5770   | -      | 45,5770      | -      | 90.5     |        | 93.4                  |        |
| Yuan                     | 90.082            | -0.0268 | 646       | -0.028 | 1,7510   | 1,7372  | 1,7372     | -      | 1,7372    | -      | 1,7372       | -      | 90.5     |        | 93.4                  |        |

| EXCHANGE CROSS RATES |     |  |     |  |     |  |     |  |    |  |   |  |    |  |  |  |
|----------------------|-----|--|-----|--|-----|--|-----|--|----|--|---|--|----|--|--|--|
| Jan 6                | BFR |  | DKR |  | FFP |  | DEM |  | IE |  | L |  | FI |  |  |  |

"Hürriyet is the first and only Turkish national newspaper to receive  
the ISO 9001 certificate..."



...and  
all we had to do  
for it,  
is what we do  
everyday!

Apart from our devoted readers in five continents and our sales exceeding any other Turkish newspaper,  
there is now a third indicator of our dedication to quality: The ISO 9001 certificate.

And all we had to do for it was what we have been doing for the past 49 years.

If you have any intention of investing in Turkey, make sure you invest on quality.  
Make sure you choose the opinion leading and best selling Turkish newspaper: Hürriyet.

**Hürriyet**

The Leading Turkish Daily Newspaper

visit our web site at [www.hurriyet.com.tr](http://www.hurriyet.com.tr)



LONDON SHARE SERVICE

#### **FT MANAGED FUNDS SERVICE**

• FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 437

## Offshore Funds

## **OFFSHORE AND OVERSEAS**

**BERMUDA**

# OFFSHORE AND OVERSEAS

## BERMUDA (SIS RECOGNISED)

**Fidelity Currency Funds Ltd**  
Fidelity Fund, Fidelity Funds  
MS Pl Admited 01/01/1919

**Private Clients 0003 141676**  
MS Accrual

**US Accrual**

<div data-b

## Offshore Funds and Insurances

• FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 873 4976

## **FT MANAGED FUNDS SERVICE**

• FT Cityline Unit Trust Prices: dial 0891 430010 and key in a 5 digit code listed below. Calls are charged at 50p per minute at all times. International access available by subscription only. For more details call the FT Cityline Help Desk on (+44 171) 673 4377.

### Offshore Insurances and Other Funds

Highs &amp; Lows shown on a 52 week basis

## WORLD STOCK MARKETS

|                       | +/- High | Low | YTD | P/E |  | +/- High                     | Low | YTD | P/E    |       | +/- High | Low | YTD | P/E    |         | +/- High | Low   | YTD   | P/E |        | +/- High | Low    | YTD   | P/E   |  |
|-----------------------|----------|-----|-----|-----|--|------------------------------|-----|-----|--------|-------|----------|-----|-----|--------|---------|----------|-------|-------|-----|--------|----------|--------|-------|-------|--|
| <b>EUROPE</b>         |          |     |     |     |  |                              |     |     |        |       |          |     |     |        |         |          |       |       |     |        |          |        |       |       |  |
| Austria (Jan 6 / Sch) |          |     |     |     |  | Cadbury                      | 341 | -12 | 355.20 | 2,344 | 64       | 945 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Belgium               |          |     |     |     |  | Carlsberg                    | 260 | -10 | 265.00 | 21.10 | 14       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Denmark               |          |     |     |     |  | Ciba-Geigy                   | 188 | -12 | 195.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Finland               |          |     |     |     |  | Citibank                     | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| France                |          |     |     |     |  | Coca-Cola                    | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Germany               |          |     |     |     |  | Compaq                       | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Ireland               |          |     |     |     |  | Concordia                    | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Italy                 |          |     |     |     |  | Continental                  | 188 | -12 | 195.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Ireland               |          |     |     |     |  | Cougar                       | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Spain                 |          |     |     |     |  | Credit Suisse                | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Sweden                |          |     |     |     |  | Daimler-Benz                 | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| Switzerland           |          |     |     |     |  | Danone                       | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Dassault                     | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Deutsche Bank                | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Diageo                       | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Dunlop                       | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | EADS                         | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Elf Aquitaine                | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Ernst & Young                | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Exxon                        | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Fiat                         | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Fluor                        | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | GKN                          | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | General Mills                | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Glaxo Wellcome               | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Goodyear                     | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Heinz                        | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Hewlett-Packard              | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | IBM                          | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Imperial Chemical Industries | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Imperial Oil                 | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Inmarsat                     | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Interim                      | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Italtel                      | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10     | 105.00   | 22.10 | 10.50 |     | 104.00 | -10      | 105.00 | 22.10 | 10.50 |  |
| UK                    |          |     |     |     |  | Kodak                        | 210 | -10 | 215.00 | 12.10 | 12       | 925 |     | 104.00 | -10</td |          |       |       |     |        |          |        |       |       |  |

4 per class June 6

## NEW YORK STOCK EXCHANGE PRICES

| Symbol       | Name    | Last | Chg. | Pct Chg. | Vol. | Open | Hgh | Lw  | Wk Hgh | Wk Lw | Mo Hgh | Mo Lw |
|--------------|---------|------|------|----------|------|------|-----|-----|--------|-------|--------|-------|
| <b>- A -</b> |         |      |      |          |      |      |     |     |        |       |        |       |
| ABE 241      | A&E     | 0.68 | 0.15 | 24       | 1785 | 311  | 314 | 315 | 315    | 315   | 315    | 315   |
| ABP 339      | ABC     | 1.94 | 0.25 | 23       | 1295 | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ABX 724      | ABX     | 0.12 | 0.01 | 23       | 100  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACI 371      | ACI     | 1.28 | 0.07 | 23       | 100  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACM 142      | ACM     | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACN 173      | ACN Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 174      | Acg     | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 555      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 175      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 556      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 557      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 558      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 559      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 560      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 561      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 562      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 563      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 564      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 565      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 566      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 567      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 568      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 569      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 570      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 571      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 572      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 573      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 574      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 575      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 576      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 577      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 578      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 579      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 580      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 581      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 582      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 583      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 584      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 585      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 586      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 587      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 588      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 589      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 590      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 591      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 592      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 593      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 594      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 595      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 596      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 597      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 598      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 599      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 600      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 601      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 602      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 603      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 604      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 605      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 606      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 607      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 608      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 609      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |
| ACG 610      | ACG Int | 0.48 | 0.23 | 0        | 172  | 315  | 315 | 315 | 315    | 315   | 315    | 315   |



## FT GUIDE TO THE WEEK

MONDAY 9

## Euro-currency gathering

European Union finance ministers meet in Luxembourg for the first time since the row between the German government and the Bundesbank over plans to revalue Germany's gold reserves and the socialist victory in France's elections. Both these events may threaten the timetable for a single European currency. Ministers will have the first opportunity to gauge the attitude of Mr Dominique Strauss-Kahn, newly-appointed French economics minister. They will also consider attempts by the European Parliament to soften the "stability pact" agreed at last December's Dublin summit and aimed at enforcing fiscal discipline in the future euro zone. It is due to be ratified at next week's Amsterdam summit.

## Central bankers meet

The Bank for International Settlements (BIS), the umbrella organisation of the world's central banks, holds its annual meeting in Basle, Switzerland, attended by central bank governors from more than 100 countries. The meeting has no formal agenda, but it is almost certain to include European economic and monetary union and the difficulties of the Czech and Thai currencies. Governors will also discuss capital flows and financial liberalisation, and the challenges posed by emerging markets.

## Caviar controls

Moves to protect sturgeon by controlling trade in caviar, a limited relaxation of the ban on ivory trade, and new curbs on timber trade are to be discussed when the 138 members of the UN Convention on International Trade in Endangered Species (Cites) meet in the Zimbabwean capital, Harare. More than 1,500 participants are expected to attend the two-week meeting. The liveliest debate is expected to centre on plans by three African states (Botswana, Namibia and Zimbabwe) to sell ivory to Japan to finance elephant conservation.

## Japan-China trade talks

Japan's trade minister, Mr Shinji Sato, will be in China to hold talks with leaders on key trade issues and Beijing's bid to join the World Trade Organisation. An increasing number of Japanese companies are manufacturing in China and Mr Sato is expected to call for curbs on the activities of foreign companies operating in China to be eased.

## Macedonian visit

Mr Kiro Gligorov, president of the Republic of Macedonia, pays a five-day



Test of endurance: The Le Mans 24-hour motor race takes place next weekend at the famous circuit in France

state visit to China to boost trade and economic ties. Earlier this year, China offered Macedonia a humanitarian aid package worth Yuan (about US\$130,000). The package is aimed at reducing the economic burden on Macedonia created by Bosnian refugees and the financial loss caused by an economic sanction against Yugoslavia. China and Macedonia signed a trade and economic co-operation agreement in 1995.

## Balkan co-operation

Foreign ministers from several Balkan countries - Greece, Turkey, Albania, Bulgaria, Romania, Serbia, Bosnia and Macedonia - discuss political and economic co-operation in the northern Greek city of Thessaloniki, which bills itself as a business centre for the region. The meeting will be the first high-level regional gathering since the break-up of Yugoslavia in 1991, but will not include Slovenia and Croatia, which no longer consider themselves part of the Balkans. Discussions will focus on confidence-building and reducing inter-ethnic tensions as well as trade and cross-border projects.

## Indian contest

India's ailing Congress Party faces its toughest battle in decades today in what will be its first contested presidential election since 1977. Mr Sharad Pawar, 57, an influential former minister, is running against Mr Sitaram Kesri, 76, the incumbent leader. He joins Mr Rajesh Pilot and Mr A.R. Antulay, both former ministers and outspoken critics of Mr Kesri. Mr Kesri is expected to win but the fact the election is contested is seen as a blow to him since he had been seeking consensus for his re-election.

## FT Survey

German Banking and Finance

## Public holidays

Hong Kong, Taiwan

TUESDAY 10

## Currency questions

Outgoing president of the European Monetary Institute, Mr Alexandre Lamfalussy, will answer questions from MEPs at the European parliament's plenary session in Strasbourg, which, like yesterday's ministerial meeting in Luxembourg, will be dominated by monetary union. MEPs will consider reports calling for greater democratic control - mainly through the parliament itself - over the European Monetary Institute and future European Central Bank on the operational framework for the single monetary policy, and on taxation policy in the euro zone.

## Import quota move

India will present its plans for phasing out import quotas on up to 2,500 consumer goods to the World Trade Organisation's balance of payments committee. The move follows heavy pressure from the International Monetary Fund and WTO trading partners, which argue that India's healthy foreign exchange position means it can no longer justify trade curbs for balance-of-payments reasons. During the two-day meeting India and WTO members will try to reach agreement on a timetable for scrapping the quotas, which apply mainly to consumer electronics and textiles.

## Indian vistas

"Visions of India - through Western Eyes", an auction of paintings of views of the sub-continent mainly by European artists during two centuries of British rule come under the hammer at Christie's in London today. Among the most costly paintings on offer is "A banyan tree at a Shiva Shrine", painted in 1789 by Thomas Daniell, which is expected to make up to £150,000. In the past such scenes were collected mainly by ex-colonials. Now a new generation of Indian entrepreneurs is buying traditional Indian scenes.

## Soccer

England plays Brazil in the Tournament of France, Paris

## FT Surveys

International Gas, Brazilian Finance and Investment

WEDNESDAY 11

## Disaster aid call

The International Federation of Red Cross and Red Crescent Societies publishes its annual World Disasters Report, a survey of issues and trends in humanitarian relief. The report highlights the increasingly important role of voluntary agencies in the delivery of aid and assistance, and calls for the development of international standards to improve the quality and accountability of humanitarian operations. The Geneva-based federation says 350m people a year will be affected by disasters by 2000, a figure that could rise to 500m.

## Moroccan meeting

Mr James Baker, UN special envoy for Western Sahara and former US secretary of state, has invited representatives of the Moroccan government and the Polisario Front to a two-day meeting in London in a fresh bid to end the 20-year-old dispute. Mr Baker hopes to start stalled UN plans to hold a referendum on the future of the former Spanish colony, delayed by a row over who is eligible to vote.

## Blair to meet Chirac

Mr Tony Blair, the UK prime minister, continues his round of meetings with European leaders with a trip to Paris for talks with Mr Jacques Chirac, the French president. Top of the agenda will be preparations for the European Union summit in Amsterdam later this month and the problems facing the timetable for monetary union. Mr Blair will be keen to assess the implications of the French left's triumph in last weekend's parliamentary elections, which will pit a socialist prime minister, Mr Lionel Jospin, against the conservative president.

## FT Survey

FT Review of Telecommunications

## Public holidays

Argentina, Hong Kong, Taiwan

THURSDAY 12

## Scene One at the Globe

A replica of William Shakespeare's Globe, the theatre in which many of his plays were first performed, opens officially today on London's Bankside with a special performance before the Queen. The dream of the American actor, the late Sam Wanamaker, the Globe has taken more than 20 years to complete and has cost £22m. Artistic director Mark Rylance heads a team of actors which this season will be performing *Henry V* and *The Winter's Tale*, plus two lesser known plays of the late Elizabethan period.

## Indonesian car dispute

A meeting of the World Trade Organization's dispute settlement body will hear second requests by Japan and the European Union for a dispute panel to rule on Indonesia's "national car" policy which they claim runs counter to international fair trade rules. Indonesia, which blocked earlier panel requests, cannot do so again. Once established, the panel has about six months to report its findings. Under the "national car" programme, Indonesia has given favourable tax and tariff treatment to cars produced by a joint venture involving the youngest son of President Suharto and Kia Motors of South Korea.

## Golf

US Open (to June 15) Bethesda, Maryland

## FT Surveys

FT Review of the Automotive Industry, Aerospace

FRIDAY 13

## Boost to Japan's GDP

Japan is expected to announce higher-than-expected gross domestic product figures for the fiscal year ending March 31. Government officials recently said Japan's real economic growth for the fiscal year is likely to exceed the government's projection of 2.5 per cent due to strong economic data. A key factor was the consumer rush in the last fiscal quarter to purchase large items, including houses and cars, ahead of the April 1 increase in sales tax from 3 to 5 per cent.

## FT Survey

Courier and Express Services

WEEKEND 14-15

## Paris takes to the air

The Paris Air Show takes off at Le Bourget on Sunday (to June 22). The show has attracted more than 1,700 exhibitors from 42 countries and is expected to be visited by around 300,000 people. For the first time it will be host to national pavilions from Brazil and Moldova and to exhibits from Lithuania, Thailand and Brazil. The Russian Federation and Eastern Europe are providing a strong presence. The centrepiece of the Russian exhibits will be a part of the Alpha space station.

## Croatian vote

Croatia goes to the polls on Sunday. President Franjo Tudjman, who led Croatia to independence from Yugoslavia in 1991, is widely expected to win a second term in the first round of voting against the former communist Zdravko Tomac, vice-president of the Social Democratic party, and Vlado Gotovac, leader of the Social Liberals. A second round of voting will be held if no candidate secures more than 50 per cent. Mr Tudjman, 75, was treated for stomach cancer in a US hospital last year and diplomats doubt that he will survive another five-year period in office.

## Motor racing

Le Mans 24-hour race (14-15) and Canadian Grand Prix, Montreal, Sunday

Compiled by Bob Vincent  
Fax: (+44) (0)171 573 3194

## Other economic news

Monday: German retail sales in April, to be released some time this week, are bound to have remained weak, underlining the fragility of the economic recovery. The markets are looking for a year-on-year fall of between 1 per cent and 2 per cent.

Tuesday: French consumer confidence in May is expected to have been hit by high unemployment and the elections. The forecast indicator score is -32, unchanged from April.

Wednesday: UK unemployment in May is forecast to have fallen because of the strong economy. The markets are looking for a drop of around 35,000, which should reduce the official unemployment rate by 0.1 per cent to 5.8 per cent.

Thursday: UK retail price inflation in May is likely to be little changed from the government's 2.5 per cent target because of downward pressure on food and drinks prices and motoring costs.

Friday: US producer prices in May are expected to show little upward movement because of low energy prices. The markets are looking for a 0.7 per cent year-on-year rise in the headline rate.

**CROSSWORD**

1 Oxford accent (6)  
4 Second drink I have makes me frisky (8)  
5 Inform of tiny adjustment (6)  
10 Bowlers may hang around here, and that's strange (6)  
12 Purse sort of hat style (5)  
13 Join a number in this place (6)  
14 Bring ship round in river (4)  
15 Still lacking subject for debate (10)  
16 Reproaching and allocating new duties (7,3)  
20 Solid figure may take root (4)  
23 Disciplined for making wrong sound (6)  
25 Badly garbled direction to raise capital (6)  
27 Unwanted gas-pipes? (6)  
28 An alcoholic drink leads to a complaint (6)  
29 Fought against being declared redundant (8)  
30 The sound of a seal or swan (6)

**DOWN**

1 Crew observed in cutter (7)  
2 Order in an hotel needs to be carried out at once (3,3,4)  
3 Fifty found out in the open (6)  
5 Schemes for north mountain accent (4)  
6 An occupant, I'd resent being sent out (8)  
7 Not in the best of moods, I reckon (5)  
8 Objects about the French not finishing (7)  
11 Finished, being nothing less than painstaking (7)  
14 He's angry about the ref being wrong (7)  
17 Children are given it in different forms (5)  
18 One may be for it in athletics (4,4)  
19 Ties the rest in knots (7)  
21 Graceful, with a gentle styling (7)  
23 Means it won't play a principal part (6)  
24 He introduces us to the girl (5)  
26 Small yet troublesome inflammation (4)

## ECONOMIC DIARY

## Statistics to be released this week

| Day    | Economic Statistic                                      | Median Forecast | Previous Actual | Day Released                                | Country                                      | Economic Statistic | Median Forecast | Previous Actual |
|--------|---|-----------------|-----------------|---|--|--------------------|-----------------|-----------------|
| Mon 9  | UK Apr industrial production                            | 1.6%            | 0.6%            | US  | M1 week ended 2 June                         | \$3.5bn            | \$3.7bn         |                 |
| Mon 9  | UK Apr manufacturing output                             | -2.1%           | -1.4%           | US  | M2 week ended 2 June                         | \$33.5bn           | \$33.5bn        |                 |
| Mon 9  | UK May producer price index input                       | -8.7%           | -10.5%          | US  | M3 week ended 2 June                         | Unchanged          | \$3.0bn         |                 |
| Mon 9  | UK May producer price index output                      | 1.1%            | 0.8%            | US  | May monthly M2                               | \$0.5bn            | \$18.3bn        |                 |
| Mon 9  | Canada Q1 industrial capacity utilisation               | 85.0%           | 84.8%           | US  | Initial claims 7 June                        | \$32K              | \$37K           |                 |
| Mon 9  | UK May British Retail Consinst ret survey               | 4.1%            |                 | Mexico                                      | Apr trade balance, final                     | \$105m             | \$885m          |                 |
| Tue 10 | Japan Apr machine orders, ex-aero & ship                | 1.2%            | -0.1%           | Fr  | Norway May trade, excluding ships            |                    | NK7.2bn         |                 |
| Tue 10 | France May INSEE household survey                       | -31             | -32             | Jun 13                                      | Italy Apr Industrial production <sup>a</sup> | 0.5%               | 0.7%            |                 |
| Tue 10 | Italy Apr ex-EU trade balance                           | £3,200bn        | £3,400bn        | Italy                                       | Apr Industrial production <sup>a</sup> nott  | 4.3%               | -3.8%           |                 |
| Tue 10 | Canada Apr motor vehicle sales                          | -2.0%           | -8.5%           | China                                       | May trade balance                            | \$2.7bn            | \$3.6bn         |                 |
| Tue 10 | US BOT-Mitsubishi 7 June                                | -0.5%           |                 | US  | May producer price index                     | 0.1%               | -0.6%           |                 |
| Tue 10 | US Redbook 7 June                                       | 0.5%            |                 | US  | May prod price index, ex-food & energy       | 0.1%               | -0.1%           |                 |
| Tue 10 | Japan Apr current account (IMF, NSA)                    | Y1,050bn        | Y1,050bn        | US  | Apr business inventories                     | 0.2%               | 0.3%            |                 |
| Tue 10 | Japan Apr trade balance (IMF, NSA)                      | Y567bn          | Y567bn          | US  | Jun Michigan Sentiment Preliminary           | 103.0              | 105.2           |                 |
| Tue 10 | Japan Apr foreign bond investment                       | Y393bn          |                 | France                                      | May consumer price index prelim <sup>a</sup> | 0.8%               | 0.9%            |                 |
| Wed 11 | UK May unemployment                                     | -35K            | -50K            | France                                      | May consumer price index prelim <sup>a</sup> | 0.2%               | 0.0%            |                 |
| Wed 11 | UK Apr average earnings                                 | 4.5%            | 4.5%            | France                                      | Mar current account                          | FF11.5bn           | FF18.2bn        |                 |
| Wed 11 | UK Apr unit wages three month <sup>a</sup>              | 2.5%            | 2.6%            | During the week...                          |  |                    |                 |                 |
| Thu 12 | Sweden Q1 gross domestic product <sup>a</sup>           | 1.8%            |                 | Spain                                       | May registered unemployed                    | 13.4%              | 13.6%           |                 |
| Thu 12 | Canada May raw materials price index <sup>a</sup> (adv) | -0.4%           | -1.5%           | Netherlands                                 | Apr producer price index <sup>a</sup>        | 1.5%               | 2.3%            |                 |
| Thu 12 | Switzerland Q1 gross domestic product <sup>a</sup>      | -0.4%           | -0.6%           | Germany                                     | May final cost of living <sup>a</sup> West   | 1.3%               |                 |                 |
| Thu 12 | UK May retail price index <sup>a</sup>                  | 2.6%            | 2.4%            | Germany                                     | May cost of living <sup>a</sup>              | 1.6%               | 1.4%            |                 |
| Thu 12 | UK May retail price index ex-MPS <sup>a</sup>           | 2.5%            | 2.5%            | Germany                                     | May wholesale price index <sup>a</sup>       | 0.3%               | 0.2%            |                 |
| Thu 12 | US May retail sales                                     | 0.4%            | -0.3%           | Japan                                       | Q1 gross domestic product (SAAR)             | 4.7%               | 8.9%            |                 |
| Thu 12 | US May retail sales ex-motor vehicles                   | 0.3%            | -0.1%           | Statistics, courtesy Standard & Poor's MMS. |  |                    |                 |                 |